

**Airtac International Group  
and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2016 and 2015 and  
Independent Auditors' Report**

*Note: The translation version is intended for reference only. If any inconsistency exists between the Chinese and English versions, the Chinese version shall govern.*

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Airtac International Group

### Opinion

We have audited the accompanying consolidated financial statements of Airtac International Group (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's Consolidated financial statements for the year ended December 31, 2016 are stated as follows:

#### Valuation of Inventory

Please refer to Notes 4(7), and 5 to the consolidated financial statements for accounting policy on inventory valuation, and Note 10 to the consolidated financial statements for the detail of the information about the accounting items of inventory. As of December 31, 2016, inventory and the allowance for inventory devaluation was \$2,209,312 thousand and \$50,997 thousand, respectively.

Since the allowance for inventory devaluation is subject to management's judgement, which has significant uncertainty, and the result could also affect the value of inventory, it has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included, in addition to testing relevant internal controls, the following:

1. We sampled the ending balance and the amount of the raw materials, work-in-progress and finished goods and verify with the detail of the inventory. The total amount of the inventories is the same with that in the general ledger.
2. For raw materials, the latest purchasing price is verified to the latest purchasing information.
3. For work-in-process and finished goods, the latest selling price is verified to the latest selling information.
4. Verified the logicity of the aging inventory calculated by the system.
5. We examined the yearly plan of inventory count and participated the inventory count to evaluate the effectiveness
6. Re-calculated the amount of the allowance for inventory devaluation.
7. We determined the differences of the allowance for inventory devaluation estimated by the Group for the year ended in December 31, 2016 and 2015 of each subsidiary. Then, we analysis the variety of the significant differences of the subsidiaries.

#### Estimated impairment of trade receivables

Please refer to Notes 4(13), 5 and 9 to the consolidated financial statements for the detail of the information about valuation of allowance for impairment losses recognized on receivables. As of December 31, 2016, trade receivables and the allowance for impairment loss of trade receivables was \$2,672,720 thousand and \$115,537 thousand, respectively. Since the allowance for impairment loss of trade receivables is subject to management's judgement, which has significant uncertainty, and the result could also affect the value of trade receivables, it has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included, in addition to testing relevant internal controls, the following:

1. We sampled the amount in all credit period of the trade receivable as of December 31, 2016. Then, we verified the supporting documents and invoices to check the credit period is correct.
2. We issued the conformation letter to the customers of the Group. For those who did not reply to the confirmation letter, we verified the rationality of the ending balance by checking the invoices and supporting documents.
3. We examined the status of the collection of trade receivables collected in 2017 to determine whether we need to estimate extra impairment loss.
4. We re-calculated the impairment loss to verify whether the Group estimated impairment loss of trade receivable according to their policy.

#### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China], and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant

deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Ming-Chung Hsieh and Bo-Ren Weng.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China  
February 24, 2017

#### Notice to Readers

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any*

*difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

| ASSETS  | 2016                 |            | 2015                 |            |
|---|----------------------|------------|----------------------|------------|
|   | Amount               | %          | Amount               | %          |
| CURRENT ASSETS  |                      |            |                      |            |
| Cash and cash equivalents (Notes 4 and 6)   | \$ 1,826,943         | 8          | \$ 2,083,830         | 10         |
| Financial assets at fair value through profit or loss - current (Notes 4, 7 and 29) | 1,852,023            | 8          | 1,001,937            | 5          |
| Debt investments with no active market - current (Notes 4, 8 and 31)                | 8,801                | -          | 6,344                | -          |
| Notes receivable (Notes 4, 5 and 9)   | 1,209,185            | 5          | 990,146              | 5          |
| Trade receivables (Notes 4, 5, 9 and 30)  | 2,557,183            | 11         | 2,046,292            | 9          |
| Other receivables (Notes 4 and 5)   | 44,644               | -          | 36,273               | -          |
| Inventories (Notes 4, 5 and 10)   | 2,158,315            | 10         | 1,964,243            | 9          |
| Other current assets (Notes 14 and 15)  | <u>198,979</u>       | <u>1</u>   | <u>277,775</u>       | <u>1</u>   |
| Total current assets  | <u>9,856,073</u>     | <u>43</u>  | <u>8,406,840</u>     | <u>39</u>  |
| NON-CURRENT ASSETS  |                      |            |                      |            |
| Investments accounted for using equity method (Notes 4, 5 and 12)                   | 56,858               | -          | 109,809              | 1          |
| Property, plant and equipment (Notes 4, 13 and 31)                                  | 11,768,569           | 51         | 12,082,831           | 56         |
| Goodwill (Note 4)   | -                    | -          | 21,829               | -          |
| Other intangible assets (Note 4)  | 77,156               | 1          | 85,805               | -          |
| Deferred tax assets (Notes 4 and 22)  | 272,887              | 1          | 188,941              | 1          |
| Long-term prepayments for lease (Note 14)   | 453,520              | 2          | 126,393              | 1          |
| Other non-current assets (Note 15)  | <u>477,849</u>       | <u>2</u>   | <u>433,569</u>       | <u>2</u>   |
| Total non-current assets  | <u>13,106,839</u>    | <u>57</u>  | <u>13,049,177</u>    | <u>61</u>  |
| TOTAL   | <u>\$ 22,962,912</u> | <u>100</u> | <u>\$ 21,456,017</u> | <u>100</u> |
| LIABILITIES AND EQUITY  |                      |            |                      |            |
| CURRENT LIABILITIES   |                      |            |                      |            |
| Short-term loans (Note 16)  | \$ 7,811,568         | 34         | \$ 6,385,542         | 30         |
| Short-term bills payable (Note 16)  | -                    | -          | 40,000               | -          |
| Notes payable (Note 17)   | 107,265              | -          | 43,011               | -          |
| Trade payables (Note 17)  | 454,476              | 2          | 350,092              | 2          |
| Other payables (Note 18)  | 710,787              | 3          | 548,613              | 2          |
| Current tax liabilities (Note 4)  | 156,604              | 1          | 113,343              | -          |
| Current portion of long-term loans (Notes 16 and 31)                                | 437,268              | 2          | 460,763              | 2          |
| Other current liabilities (Note 18)   | <u>143,462</u>       | <u>1</u>   | <u>144,413</u>       | <u>1</u>   |
| Total current liabilities   | <u>9,821,430</u>     | <u>43</u>  | <u>8,085,777</u>     | <u>37</u>  |
| NON-CURRENT LIABILITIES   |                      |            |                      |            |
| Long-term loans (Notes 16 and 31)   | 2,035,049            | 9          | 2,636,467            | 12         |
| Deferred tax liabilities (Notes 4 and 22)   | 354,236              | 1          | 296,552              | 2          |
| Accrued pension liabilities (Notes 4, 5 and 19)                                     | <u>-</u>             | <u>-</u>   | <u>28,369</u>        | <u>-</u>   |
| Total non-current liabilities   | <u>2,389,285</u>     | <u>10</u>  | <u>2,961,388</u>     | <u>14</u>  |
| Total liabilities   | <u>12,210,715</u>    | <u>53</u>  | <u>11,047,165</u>    | <u>51</u>  |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 20)                              |                      |            |                      |            |
| Share Capital   | 1,790,250            | 8          | 1,790,250            | 9          |
| Capital surplus   | 3,906,960            | 17         | 3,906,960            | 18         |
| Retained earnings   | 5,294,959            | 23         | 4,137,247            | 19         |
| Other equity  | <u>(351,954)</u>     | <u>(2)</u> | <u>424,139</u>       | <u>2</u>   |
| Total equity attributable to owners of the Company                                  | 10,640,215           | 46         | 10,258,596           | 48         |
| NON-CONTROLLING INTERESTS   | <u>111,982</u>       | <u>1</u>   | <u>150,256</u>       | <u>1</u>   |
| Total equity  | <u>10,752,197</u>    | <u>47</u>  | <u>10,408,852</u>    | <u>49</u>  |
| TOTAL   | <u>\$ 22,962,912</u> | <u>100</u> | <u>\$ 21,456,017</u> | <u>100</u> |

The accompanying notes are an integral part of the consolidated financial statements.

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|   | 2016               |             | 2015               |             |
|---|--------------------|-------------|--------------------|-------------|
|   | Amount             | %           | Amount             | %           |
| OPERATING REVENUE   |                    |             |                    |             |
| Sales (Notes 4 and 30)  | \$ 10,621,618      | 100         | \$ 8,797,169       | 100         |
| OPERATING COSTS   |                    |             |                    |             |
| Cost of goods sold (Notes 10 and 21)  | <u>(5,186,346)</u> | <u>(49)</u> | <u>(4,259,821)</u> | <u>(48)</u> |
| GROSS PROFIT  | <u>5,435,272</u>   | <u>51</u>   | <u>4,537,348</u>   | <u>52</u>   |
| OPERATING EXPENSES (Note 21)  |                    |             |                    |             |
| Selling and marketing expenses  | (1,545,347)        | (14)        | (1,456,473)        | (17)        |
| General and administrative expenses   | (836,531)          | (8)         | (717,881)          | (8)         |
| Research and development expenses   | <u>(333,726)</u>   | <u>(3)</u>  | <u>(290,176)</u>   | <u>(3)</u>  |
| Total operating expenses  | <u>(2,715,604)</u> | <u>(25)</u> | <u>(2,464,530)</u> | <u>(28)</u> |
| PROFIT FROM OPERATIONS  | <u>2,719,668</u>   | <u>26</u>   | <u>2,072,818</u>   | <u>24</u>   |
| NON-OPERATING INCOME AND EXPENSES<br>(Notes 4 and 21)                       |                    |             |                    |             |
| Other income  | 27,345             | -           | 27,848             | -           |
| Other gains and losses  | 242,877            | 2           | (172,137)          | (2)         |
| Finance costs   | <u>(141,881)</u>   | <u>(1)</u>  | <u>(88,953)</u>    | <u>(1)</u>  |
| Total non-operating income and expenses                                     | <u>128,341</u>     | <u>1</u>    | <u>(233,242)</u>   | <u>(3)</u>  |
| PROFIT BEFORE INCOME TAX FROM<br>CONTINUING OPERATIONS                      | 2,848,009          | 27          | 1,839,576          | 21          |
| INCOME TAX EXPENSE (Notes 4 and 22)   | <u>(819,959)</u>   | <u>(8)</u>  | <u>(464,490)</u>   | <u>(6)</u>  |
| NET PROFIT FOR THE YEAR   | <u>2,028,050</u>   | <u>19</u>   | <u>1,375,086</u>   | <u>15</u>   |
| OTHER COMPREHENSIVE INCOME  |                    |             |                    |             |
| Items that will not be reclassified subsequently<br>to profit or loss:      |                    |             |                    |             |
| Remeasurement of defined benefits plans                                     | (559)              | -           | 1,817              | -           |
| Exchange differences arising on translation to<br>the presentation currency | (825,536)          | (8)         | (214,522)          | (2)         |
| Items that may be reclassified subsequently to<br>profit or loss:           |                    |             |                    |             |
| Exchange differences on translating foreign<br>operations                   | <u>53,712</u>      | <u>1</u>    | <u>17,717</u>      | <u>-</u>    |

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# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|   | <u>2016</u>         |            | <u>2015</u>         |            |
|---|---------------------|------------|---------------------|------------|
|   | <u>Amount</u>       | <u>%</u>   | <u>Amount</u>       | <u>%</u>   |
| Other comprehensive income for the year,<br>net of income tax | <u>(772,383)</u>    | <u>(7)</u> | <u>(194,988)</u>    | <u>(2)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE<br>YEAR                    | <u>\$ 1,255,667</u> | <u>12</u>  | <u>\$ 1,180,098</u> | <u>13</u>  |
| NET PROFIT ATTRIBUTABLE TO:                                   |                     |            |                     |            |
| Owner of the Company  | \$ 1,918,675        | 18         | \$ 1,367,550        | 16         |
| Non-controlling interests                                     | <u>109,375</u>      | <u>1</u>   | <u>7,536</u>        | <u>-</u>   |
|   | <u>\$ 2,028,050</u> | <u>19</u>  | <u>\$ 1,375,086</u> | <u>16</u>  |
| TOTAL COMPREHENSIVE INCOME<br>ATTRIBUTABLE TO:                |                     |            |                     |            |
| Owner of the Company  | \$ 1,147,123        | 11         | \$ 1,171,681        | 13         |
| Non-controlling interests                                     | <u>108,544</u>      | <u>1</u>   | <u>8,417</u>        | <u>-</u>   |
|   | <u>\$ 1,255,667</u> | <u>12</u>  | <u>\$ 1,180,098</u> | <u>13</u>  |
| EARNINGS PER SHARE (Note 23)                                  |                     |            |                     |            |
| Basic   | <u>\$ 10.72</u>     |            | <u>\$ 7.64</u>      |            |
| Diluted   | <u>\$ 10.70</u>     |            | <u>\$ 7.63</u>      |            |

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015  
(In Thousands of New Taiwan Dollars)

|  | Equity Attributable to Owners of the Company |                            |                             |                 |                         |                   |              |  |   |               | Non-controlling Interests | Total Equity  |
|--|--|----------------------------|-----------------------------|-----------------|-------------------------|-------------------|--------------|--|---|---------------|---------------------------|---------------|
|  |  |                            |                             |                 |                         |                   | Other Equity |  |   |               |                           |               |
|  | Share Capital                                |                            | Organization Reconstruction | Capital Surplus |                         | Retained Earnings |              | Exchange Differences on Translating Foreign Operations | Remeasurement of Defined Benefits Plans | Total         |                           |               |
| Shares (In Thousands)  | Ordinary Shares                              | Additional Paid-in Capital |                             | Donations       | Unappropriated Earnings | Special Reserve   |              |  |   |               |                           |               |
| BALANCE AT JANUARY 1, 2015   | 170,500                                      | \$ 1,705,000               | \$ 704,640                  | \$ 3,160,768    | \$ 41,552               | \$ 3,640,591      | \$ 32,756    | \$ 615,843   | \$ 4,165                                | \$ 9,905,315  | \$ 152,498                | \$ 10,057,813 |
| Appropriation of 2014 earnings   |  |                            |                             |                 |                         |                   |              |  |   |               |                           |               |
| Special reserve reversed under Rule No. 1010012865 issued by the FSC               | -  | -                          | -                           | -               | -                       | (44,718)          | 44,718       | -  | -                                       | -             | -                         | -             |
| Cash dividends distributed by the Company  | -  | -                          | -                           | -               | -                       | (818,400)         | -            | -  | -                                       | (818,400)     | -                         | (818,400)     |
| Share dividends distributed by the Company   | 8,525  | 85,250                     | -                           | -               | -                       | (85,250)          | -            | -  | -                                       | -             | -                         | -             |
| Cash dividends distributed by subsidiaries   | -  | -                          | -                           | -               | -                       | -                 | -            | -  | -                                       | -             | (10,659)                  | (10,659)      |
| Net profit for the year ended December 31, 2015                                    | -  | -                          | -                           | -               | -                       | 1,367,550         | -            | -  | -                                       | 1,367,550     | 7,536                     | 1,375,086     |
| Other comprehensive income for the year ended December 31, 2015, net of income tax | -  | -                          | -                           | -               | -                       | -                 | -            | (196,843)  | 974                                     | (195,869)     | 881                       | (194,988)     |
| Total comprehensive income for the year ended December 31, 2015                    | -  | -                          | -                           | -               | -                       | 1,367,550         | -            | (196,843)  | 974                                     | 1,171,681     | 8,417                     | 1,180,098     |
| BALANCE AT DECEMBER 31, 2015   | 179,025                                      | 1,790,250                  | 704,640                     | 3,160,768       | 41,552                  | 4,059,773         | 77,474       | 419,000  | 5,139                                   | 10,258,596    | 150,256                   | 10,408,852    |
| Special reserve under Rule No. 1010012865 issued by the FSC                        | -  | -                          | -                           | -               | -                       | 12,545            | (12,545)     | -  | -                                       | -             | -                         | -             |
| Appropriation of 2015 earnings   |  |                            |                             |                 |                         |                   |              |  |   |               |                           |               |
| Cash dividends distributed by the Company  | -  | -                          | -                           | -               | -                       | (716,100)         | -            | -  | -                                       | (716,100)     | -                         | (716,100)     |
| Cash dividends distributed by subsidiaries   | -  | -                          | -                           | -               | -                       | -                 | -            | -  | -                                       | -             | (24,605)                  | (24,605)      |
| Changes in percentage of ownership interest in subsidiaries (Note 25)              | -  | -                          | -                           | -               | -                       | (44,863)          | -            | (6,052)  | 1,511                                   | (49,404)      | (52,219)                  | (101,623)     |
| Decrease in non-controlling interests  | -  | -                          | -                           | -               | -                       | -                 | -            | -  | -                                       | -             | (69,994)                  | (69,994)      |
| Net profit for the year ended December 31, 2016                                    | -  | -                          | -                           | -               | -                       | 1,918,675         | -            | -  | -                                       | 1,918,675     | 109,375                   | 2,028,050     |
| Other comprehensive income for the year ended December 31, 2016, net of income tax | -  | -                          | -                           | -               | -                       | -                 | -            | (771,164)  | (388)                                   | (771,552)     | (831)                     | (772,383)     |
| Total comprehensive income for the year ended December 31, 2016                    | -  | -                          | -                           | -               | -                       | 1,918,675         | -            | (771,164)  | (388)                                   | 1,147,123     | 108,544                   | 1,255,667     |
| BALANCE AT DECEMBER 31, 2016   | 179,025                                      | \$ 1,790,250               | \$ 704,640                  | \$ 3,160,768    | \$ 41,552               | \$ 5,230,030      | \$ 64,929    | \$ (358,216)   | \$ 6,262                                | \$ 10,640,215 | \$ 111,982                | \$ 10,752,197 |

The accompanying notes are an integral part of the consolidated financial statements.

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

|   | 2016             | 2015             |
|---|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                  |                  |
| Income before income tax  | \$ 2,848,009     | \$ 1,839,576     |
| Adjustments for:  |                  |                  |
| Depreciation expenses   | 750,694          | 630,925          |
| Amortization expenses   | 15,760           | 15,649           |
| Impairment loss recognized on trade receivables   | 29,837           | 45,443           |
| Net gain on financial assets at fair value through profit or loss                       | (47,851)         | (30,606)         |
| Finance costs   | 141,881          | 88,953           |
| Interest income   | (27,345)         | (27,848)         |
| Share of losses of associates   | 7,737            | 11,559           |
| Loss (gain) on disposal of property, plant and equipment                                | (516,392)        | 8,354            |
| Write-down of inventories   | 29,860           | 15,876           |
| Impairment loss recognized on investment in subsidiaries                                | 45,214           | -                |
| Net loss on foreign currency exchange   | 304,183          | 210,387          |
| Amortization of prepayments for lease   | 3,139            | 3,222            |
| Changes in operating assets and liabilities:  |                  |                  |
| Increase in notes receivable  | (308,897)        | (2,766)          |
| Increase in trade receivables   | (727,261)        | (356,897)        |
| (Increase) decrease in other receivables  | (11,086)         | 99,708           |
| Increase in inventories   | (395,992)        | (179,755)        |
| (Increase) decrease in other current assets   | 61,086           | (96,236)         |
| Increase in net defined benefit assets  | (6,969)          | -                |
| Increase in notes payable   | 70,900           | 38,055           |
| Increase (decrease) in trade payables   | 137,872          | (39,734)         |
| Increase in other payables  | 215,833          | 22,215           |
| Increase in other current liabilities   | 10,478           | 50,766           |
| Decrease in accrued pension liabilities   | (28,369)         | (972)            |
| Cash generated from operations  | 2,602,321        | 2,345,874        |
| Interest received   | 26,680           | 27,814           |
| Interest paid   | (141,542)        | (86,028)         |
| Income tax paid   | (784,482)        | (551,180)        |
| Net cash generated from operating activities  | <u>1,702,977</u> | <u>1,736,480</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                  |                  |
| Purchase of financial assets designated as at fair value through profit or loss         | (8,427,388)      | (5,848,462)      |
| Proceeds on sale of financial assets designated as at fair value through profit or loss | 7,502,975        | 5,645,744        |
| Purchase of debt investments with no active market                                      | (5,488)          | (68,781)         |
| Proceeds on sale of debt investments with no active market                              | 2,403            | 125,803          |
| Net cash inflow on disposal of subsidiaries   | -                | 100,000          |
| Payments for property, plant and equipment  | (1,545,529)      | (2,467,544)      |
| Proceeds from disposal of property, plant and equipment                                 | 1,047,511        | 14,508           |
|   |                  | (Continued)      |

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

|   | 2016                | 2015                               |
|---|---------------------|------------------------------------|
| Increase in refundable deposits   | (17,704)            | (18,063)                           |
| Decrease in refundable deposits   | 12,671              | 9,416                              |
| Acquisitions of intangible assets   | (12,442)            | (22,280)                           |
| Increase in prepayments for business facilities                                       | (67,647)            | -                                  |
| Increase in prepayments for lease   | (357,152)           | -                                  |
| Net cash outflow on acquisition of subsidiaries (Note 25)                             | <u>(101,623)</u>    | <u>-</u>                           |
| Net cash used in investing activities   | <u>(1,969,413)</u>  | <u>(2,529,659)</u>                 |
| CASH FLOWS FROM FINANCING ACTIVITIES  |                     |                                    |
| Proceeds from short-term loans  | 1,494,472           | 859,188                            |
| Repayments of short-term bills payable  | (40,000)            | (30,000)                           |
| Proceeds from long-term loans   | -                   | 1,195,120                          |
| Repayments of long-term loans   | (627,244)           | (23,073)                           |
| Dividends paid to owners of the Company   | (716,100)           | (818,400)                          |
| Dividends paid to non-controlling interests   | (24,605)            | (10,659)                           |
| Decrease in non-controlling interests   | <u>(69,994)</u>     | <u>-</u>                           |
| Net cash generated from financing activities  | <u>16,529</u>       | <u>1,172,176</u>                   |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE<br>BALANCE OF CASH HELD IN FOREIGN CURRENCIES | <u>(6,980)</u>      | <u>60,112</u>                      |
| NET INCREASE (DECREASE) IN CASH AND CASH<br>EQUIVALENTS                               | (256,887)           | 439,109                            |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF<br>THE YEAR                             | <u>2,083,830</u>    | <u>1,644,721</u>                   |
| CASH AND CASH EQUIVALENTS AT THE END OF THE<br>YEAR                                   | <u>\$ 1,826,943</u> | <u>\$ 2,083,830</u><br>(Concluded) |

The accompanying notes are an integral part of the consolidated financial statements.

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

#### 1. GENERAL

Airtac International Group (the “Company,” the Company and its subsidiaries are collectively referred to as the “Group”) was incorporated on September 16, 2009 in British Cayman Islands under reorganization mainly for the purpose of applying for listing on Taiwan Stock Exchange (“TWSE”). Admire Fame International Limited (“Admire Fame”), the Company’s parent company decided on December 23, 2009 with the approval of the shareholders to convert all stocks of Admire Fame to the stocks of the Company at the ratio of 1:1 (referred to as “stock swap” hereunder), and decided to dissolve and liquidate Admire Fame in 2010. Following the stock swap and reorganization, the Company becomes the holding company of a group of enterprises and engages in investment. The main businesses of other companies under the Group are set out in Note 11.

The Company’s stocks were listed on TWSE in December 2010.

The functional currency of the Company is RMB. For greater comparability and consistency of financial reporting, the consolidated financial statements are presented in New Taiwan dollars since the Company’s stocks are listed on the Taiwan Stock Exchange.

#### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and issued on February 24, 2017.

#### 3. APPLICATION OF NEW AND REVISED STANDARDS, AMENDMENTS AND INTERPRETATIONS

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the IASB and endorsed by the FSC for application starting from 2017.

| New IFRSs   | Effective Date<br>Announced by IASB (Note 1) |
|---|--|
| Annual Improvements to IFRSs 2010-2012 Cycle  | July 1, 2014 (Note 2)                        |
| Annual Improvements to IFRSs 2011-2013 Cycle  | July 1, 2014                                 |
| Annual Improvements to IFRSs 2012-2014 Cycle  | January 1, 2016 (Note 3)                     |
| Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception” | January 1, 2016                              |

| <b>New IFRSs</b>   | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--|--|
| Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”                    | January 1, 2016                                      |
| Amendment to IAS 1 “Disclosure Initiative”   | January 1, 2016                                      |
| Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization” | January 1, 2016                                      |
| Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”   | January 1, 2016                                      |
| Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”                                    | July 1, 2014   |
| Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”    | January 1, 2014                                      |
| Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”                     | January 1, 2014                                      |
| IFRIC 21 “Levies”  | January 1, 2014                                      |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

Except for the following, the initial application of the above New or amended IFRSs in 2017 would not have any material impact on the Group’s accounting policies:

1) Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

In issuing IFRS 13 “Fair Value Measurement”, the IASB made consequential amendment to the disclosure requirements in IAS 36 “Impairment of Assets”, introducing a requirement to disclose in every reporting period the recoverable amount of an asset or each cash-generating unit. The amendment clarifies that such disclosure of recoverable amounts is required only when an impairment loss has been recognized or reversed during the period. Furthermore, the Group is required to disclose the discount rate used in measurements of the recoverable amount based on fair value less costs of disposal measured using a present value technique.

2) Annual Improvements to IFRSs: 2010-2012 Cycle

Several standards including IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 8 “Operating Segments” were amended in this annual improvement.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 “Investment Property”, were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32. The Group entered into [crude oil] purchase contracts that could be settled net in cash. When the amended IFRS 13 becomes effective in 2017, the Group will elect to measure the fair value of those contracts on a net basis retrospectively.

#### 4) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

#### b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

| <b>New IFRSs</b>   | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--|--|
| Annual Improvements to IFRSs 2014-2016 Cycle   | Note 2   |
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"     | January 1, 2018                                      |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018                                      |
| IFRS 9 "Financial Instruments"   | January 1, 2018                                      |

| <b>New IFRSs</b>   | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|--|--|
| Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”                          | January 1, 2018                                      |
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined by IASB                             |
| IFRS 15 “Revenue from Contracts with Customers”  | January 1, 2018                                      |
| Amendment to IFRS 15 “Clarifications to IFRS 15”   | January 1, 2018                                      |
| IFRS 16 “Leases”   | January 1, 2019                                      |
| Amendment to IAS 7 “Disclosure Initiative”   | January 1, 2017                                      |
| Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”  | January 1, 2017                                      |
| Amendments to IAS 40 “Transfers of investment property”  | January 1, 2018                                      |
| IFRIC 22 “Foreign Currency Transactions and Advance Consideration”   | January 1, 2018                                      |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

#### 1) IFRS 9 “Financial Instruments”

##### Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- (a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- (b) For debt instruments, if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent



changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required.

#### The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

#### 2) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and related interpretations.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- (a) Identify the contract with the customer;
- (b) Identify the performance obligations in the contract;
- (c) Determine the transaction price;
- (d) Allocate the transaction price to the performance obligations in the contracts; and
- (e) Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

#### 3) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a

number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within [operating activities/financing activities].

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

#### 4) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve this, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

#### 5) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures,” were amended in this annual improvement.

#### 6) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continually assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is complete.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **a. Statement of Compliance**

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and IFRSs as endorsed and issued into effect by the FSC.

##### **b. Basis of Preparation**

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

##### **c. Classification of Current and Non-current Assets and Liabilities**

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period, even if

an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and

- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

#### d. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 11 and Table 2 for the detailed information of subsidiaries (including the percentage of ownership and main business).

#### e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the

acquirer's previously held interests in the acquiree, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of the measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

#### f. Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

#### g. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average.

#### h. Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the associate's profit or loss and other comprehensive income. The Group also recognizes the changes in the Group's share of equity of associates attributable to the Group.

Any cost of acquisition in excess of the Group's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included in the carrying amount of the investment and is not amortized.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

#### i. Property, Plant and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss.

Properties in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is recognized using the straight-line method. Each part of a property, plant and equipment item that is significant to the total cost of the item is depreciated separately. The estimated useful lives, residual values and depreciation method are audited at the end of each reporting period, with any changes in estimates accounted for prospectively.

Any gain or loss on the disposal or retirement of a property, plant and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

j. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

k. Intangible Assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. The estimated useful life residual value, and amortization method are audited at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life. When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognizes an intangible asset at fair value upon initial recognition. The intangible asset is subsequently measured at cost less accumulated amortization and any accumulated impairment loss.

2) Derecognition of intangible assets

Gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

l. Impairment of Tangible and Intangible Assets Other Than Goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units in case of the Group can use a reasonable and consistent basis of allocation, otherwise, corporate assets are allocated to the smallest group of cash-generating units.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

#### m. Financial Instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

##### 1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis/settlement date basis.

##### a) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, and loans and receivables.

##### i. Financial assets at fair value through profit or loss



Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- iii) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

## ii. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, and debt investments with no active market) system using the effective interest method at amortized cost amount after deduction of impairment loss is measured by the extent of the interest of short-term receivables are recognized non-materiality except in the case.

Cash equivalents include self-made within three months from the date of highly liquid investments which are readily convertible to known amounts of cash and very little risk of changes in value of deposits and commercial paper, used to meet short-term cash commitments.

## b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as notes and trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past

experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables, and other situation.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables that are written off against the allowance account.

#### c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

## 2) Equity Instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

### 3) Financial Liabilities

#### a) Subsequent measurement

Financial liabilities using the effective interest method at amortized cost measured at amortized debt instrument using the effective interest method and means to calculate the cost of allocating interest income over the relevant period. The effective interest rate on the debt instruments means the expected life or appropriate, a shorter period, the amount of the estimated future cash receipts (including all fees paid or received and the points are part of the overall effective interest rate, transaction costs and all other premiums or discounts) after discounting, exactly equal to the net carrying amount of the interest rate initially recognized.

#### b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

### n. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale if the seller can reliably estimate future returns and recognizes a liability for returns based on previous experience and relevant factors.

#### 1) Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c) The amount of revenue can be measured reliably;

- d) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e) The transaction costs incurred or to be incurred can be measured reliably.

## 2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established and if it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

## o. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred.

## p. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

## q. Government Grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

r. Retirement Benefit Costs

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, and net interest on the net defined benefit liability (asset)) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings/other equity and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events

s. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the

resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

## **5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated

assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are audited on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of notes and trade receivables and other receivables

When there is objective evidence that an impairment indicator, the combined company will consider the estimation of future cash flows. The amount of impairment loss based on the carrying amount of the asset and the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the effective discounted at the original interest rate of the financial asset between the measure. If the actual future cash flows are less than expected, a material impairment loss may arise.

b. Write-down of inventories

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

c. Impairment of investment in the associate

The Group immediately recognizes impairment loss on its net investment in the associate when there is any indication that the investment may be impaired and the carrying amount may not be recoverable. The Group's management evaluates the impairment based on the estimated future cash flow expected to be generated by the associate, including growth rate of sale and capacity of production facilities estimated by the associate's management. The Group also takes into consideration the market conditions and industry development to evaluate the appropriateness of assumptions.

## 6. CASH AND CASH EQUIVALENTS

|   | <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---|------------------------------|------------------------------|
| Cash on hand  | \$ 2,141                     | \$ 2,075                     |
| Checking accounts and demand deposits                         | 1,146,017                    | 1,336,102                    |
| Cash equivalent   |                              |                              |
| Time deposits with original maturities less than three months | <u>678,785</u>               | <u>745,653</u>               |
|   | <u>\$ 1,826,943</u>          | <u>\$ 2,083,830</u>          |

The market rate intervals of cash in bank and bank overdrafts at the end of the reporting period were as follows:

|               | <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---------------|------------------------------|------------------------------|
| Bank balance  | 0.001%~0.35%                 | 0.001%~0.35%                 |
| Time deposits | 1.10%~9.47%                  | 1.48%~5.60%                  |

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---|------------------------------|------------------------------|
| <u>Financial assets at FVTPL- current</u> |                              |                              |
| Financial assets designated as at FVTPL   |                              |                              |
| Structured deposits                       | <u>\$ 1,852,023</u>          | <u>\$ 1,001,937</u>          |

The Group signed a contract of structural time deposits. The structured time deposits contract contains an embedded derivative not closely related to the host contract. The Group designated the entire contract as a financial assets at fair value through profit or loss.

At the end of the reporting period, outstanding structured deposits were as follow:

| <u>December 31, 2016</u>              |                        |                               |                   |
|---------------------------------------|------------------------|-------------------------------|-------------------|
| <b>Nature of financial instrument</b> | <b>Contract period</b> | <b>Amount of the contract</b> | <b>Fair value</b> |
| Structured deposits                   | 2016.09.28~2017.01.04  | \$ 46,170                     | \$ 46,556         |
| Structured deposits                   | 2016.10.18~2017.01.18  | 138,510                       | 139,422           |
| Structured deposits                   | 2016.11.29~2017.03.01  | 138,510                       | 138,893           |
| Structured deposits                   | 2016.12.01~2017.03.01  | 92,340                        | 92,583            |
| Structured deposits                   | 2016.12.07~2017.02.07  | 46,170                        | 46,266            |
| Structured deposits                   | 2016.12.27~2017.02.27  | 69,255                        | 69,280            |
| Structured deposits                   | 2016.12.27~2017.01.10  | 46,170                        | 46,184            |
| Structured deposits                   | 2016.12.28~2017.01.04  | 46,170                        | 46,179            |
| Structured deposits                   | 2016.09.28~2017.01.04  | 92,340                        | 93,113            |
| Structured deposits                   | 2016.12.19~2017.03.20  | 253,935                       | 254,202           |
| Structured deposits                   | 2016.12.09~2017.01.04  | 138,510                       | 138,727           |
| Structured deposits                   | 2016.10.10~2017.01.10  | 138,510                       | 139,521           |
| Structured deposits                   | 2016.12.08~2017.03.08  | 115,425                       | 115,654           |
| Structured deposits                   | 2016.12.20~2017.02.20  | 138,510                       | 138,644           |
| Structured deposits                   | 2016.12.27~2017.01.10  | 115,425                       | 115,458           |



| <b>Nature of financial instrument</b> | <b>Contract period</b> | <b>Amount of the contract</b> | <b>Fair value</b>   |
|---------------------------------------|------------------------|-------------------------------|---------------------|
| Structured deposits                   | 2016.12.28~2017.01.05  | <u>92,340</u>                 | <u>92,357</u>       |
|                                       |                        | <u>\$ 1,846,800</u>           | <u>\$ 1,852,023</u> |

**December 31, 2015**

| <b>Nature of financial instrument</b> | <b>Contract period</b> | <b>Amount of the contract</b> | <b>Fair value</b>   |
|---------------------------------------|------------------------|-------------------------------|---------------------|
| Structured deposits                   | 2015.11.04~2016.01.04  | \$ 49,950                     | \$ 50,239           |
| Structured deposits                   | 2015.11.12~2016.01.12  | 99,900                        | 100,396             |
| Structured deposits                   | 2015.11.17~2016.01.18  | 99,900                        | 100,346             |
| Structured deposits                   | 2015.11.25~2016.01.25  | 174,825                       | 175,463             |
| Structured deposits                   | 2015.12.04~2016.03.04  | 99,900                        | 100,173             |
| Structured deposits                   | 2015.12.07~2016.03.07  | 49,950                        | 50,072              |
| Structured deposits                   | 2015.12.09~2016.03.09  | 149,850                       | 150,184             |
| Structured deposits                   | 2015.12.09~2016.03.09  | 74,925                        | 75,092              |
| Structured deposits                   | 2015.12.25~2016.02.15  | 99,900                        | 100,062             |
| Structured deposits                   | 2015.12.31~2016.03.01  | <u>99,000</u>                 | <u>99,910</u>       |
|                                       |                        | <u>\$ 999,000</u>             | <u>\$ 1,001,937</u> |

**8. DEBT INVESTMENTS WITH NO ACTIVE MARKET-CURRENT**

|   | <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---|------------------------------|------------------------------|
| Time deposits with original maturities more than three months | <u>\$ 8,801</u>              | <u>\$ 6,344</u>              |

The market interest rates of the time deposits with original maturity more than 3 months were 0.35%~3.25% and 3.25% per annum as of December 31, 2016 and 2015.

Refer to Note 31 for information relating to debt investments with no active market pledged as security.

**9. NOTES RECEIVABLE AND TRADE RECEIVABLES**

| <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|------------------------------|------------------------------|
|------------------------------|------------------------------|

Notes receivable

|                                     |                     |                   |
|-------------------------------------|---------------------|-------------------|
| Notes receivable                    | \$ 1,209,481        | \$ 990,578        |
| Less: Allowance for impairment loss | ( <u>296</u> )      | ( <u>432</u> )    |
|                                     | <u>\$ 1,209,185</u> | <u>\$ 990,146</u> |

Trade receivables

|                                     |                     |                     |
|-------------------------------------|---------------------|---------------------|
| Trade receivables                   | \$ 2,672,720        | \$ 2,150,109        |
| Less: Allowance for impairment loss | ( <u>115,537</u> )  | ( <u>103,817</u> )  |
|                                     | <u>\$ 2,557,183</u> | <u>\$ 2,046,292</u> |

The average credit period on sales of goods was from 30 to 90 days. The Group recognized an allowance for impairment loss of 100% against all receivables over 730 days because historical experience had been that receivables that are past due beyond 730 days were not recoverable. Allowance for impairment loss were recognized against trade receivables between 30 days and 730 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial position.

Before accepting any new customer, the Group will assess the potential customer's credit quality and set the credit line of the customer. Inspect credit line and rating of customers regularly.

The Group serves a large consumer base; therefore, the concentration of credit risk is limited.

There is no trade receivables balances that were past due at the end of the reporting period.

Age of individually impaired trade receivables was as follow:

|                    | <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--------------------|------------------------------|------------------------------|
| 0 ~90 days         | \$ 2,008,406                 | \$ 1,535,320                 |
| 91~180 days        | 475,552                      | 397,669                      |
| Over than 180 days | <u>118,762</u>               | <u>217,120</u>               |
|                    | <u>\$ 2,672,720</u>          | <u>\$ 2,150,109</u>          |

The above aging of trade receivables was presented based on the invoice date.

Movements in the allowance for impairment loss recognized on the notes receivable and trade receivables were as follows:

| <b>For the Year ended<br/>December 31</b> |             |
|---|-------------|
| <b>2016</b>                               | <b>2015</b> |

|  |                   |                   |
|--|-------------------|-------------------|
| Balance at January 1   | \$ 104,249        | \$ 66,811         |
| Add: Allowance for impairment losses recognized on receivables | 29,837            | 45,443            |
| Less: Amounts written off as uncollectible                     | ( 9,273)          | ( 6,536)          |
| Effect of exchange rate changes                                | ( 8,980)          | ( 1,469)          |
| Balance at December 31   | <u>\$ 115,833</u> | <u>\$ 104,246</u> |

## 10. INVENTORIES

|                  | <u>December 31,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|------------------|------------------------------|------------------------------|
| Raw materials    | \$ 628,155                   | \$ 526,914                   |
| Finished goods   | 917,395                      | 868,376                      |
| Work in progress | <u>612,765</u>               | <u>568,953</u>               |
|                  | <u>\$2,158,315</u>           | <u>\$1,964,243</u>           |

As of December 31, 2016 and 2015, the allowance for inventory devaluation was \$50,997 thousand and \$36,402 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was \$5,186,346 thousand and \$4,259,821 thousand, respectively. The cost of goods sold included inventory write-downs of \$29,860 thousand and \$15,876 thousand, respectively. The cost of goods sold included loss on disposal of inventory of \$13,488 thousand and \$10,941 thousand, respectively.

## 11. SUBSIDIARIES

### Subsidiaries included in the consolidated financial statements

| <u>Investor</u>                       | <u>Investee</u>                                 | <u>Proportion of Ownership</u> |                              |
|---------------------------------------|---|--------------------------------|------------------------------|
|                                       |   | <u>December 31,<br/>2016</u>   | <u>December<br/>31, 2015</u> |
| Airtac International Group            | Airtac Trading (Hong Kong) Limited              | 100                            | 100                          |
|                                       | Airtac Industrial (Hong Kong) Limited           | 100                            | 100                          |
|                                       | Instant Reach International Limited             | 100                            | 100                          |
|                                       | Airtac Holding (Singapore) Pte. Ltd.            | 100                            | 100                          |
| Airtac Trading (Hong Kong) Limited    | Jianliang (Shanghai) Trading Co., Ltd.          | -                              | 100                          |
| Airtac Industrial (Hong Kong) Limited | Ningbo Airtac Automatic Industrial Co., Ltd.    | 100                            | 100                          |
|                                       | Guangdong Airtac Automatic Industrial Co., Ltd. | 100                            | 100                          |
|                                       | Airtac (China) Co., Ltd.                        | 100                            | 100                          |
|                                       | Airtac (Jiangsu) Automatic Co., Ltd.            | 100                            | 100                          |
| Instant Reach International Limited   | ATC (Italia) S.R.L.                             | 100                            | 100                          |
|                                       | Airtac Industrial Co., Ltd.                     | 69.44                          | 53.66                        |
| Airtac Holding (Singapore) Pte. Ltd.  | Airtac International (Singapore) Pte. Ltd.      | 100                            | 100                          |

| Investor                                   | Investee                                       | Proportion of Ownership |                   |
|--|--|-------------------------|-------------------|
|  |  | December 31, 2016       | December 31, 2015 |
|  | Airtac Co., Ltd.                               | 100                     | 100               |
|  | Airtac USA Corporation                         | 100                     | -                 |
| Airtac International (Singapore) Pte. Ltd. | Airtac Industrial (Malaysia) Sdn. Bhd.         | 100                     | 100               |
|  | Airtac Industrial (Thailand) Co., Ltd.         | 100                     | 100               |
| Airtac (China) Co., Ltd.                   | Guangdong Airtac Machinery Equipment Co., Ltd. | 100                     | -                 |

- 1) Airtac Trading (Hong Kong) Limited, Airtac Industrial (Hong Kong) Limited, Instant Reach International Limited and Airtac Holding (Singapore) Pte. Ltd. are primarily holding companies.
- 2) Jianliang (Shanghai) Trading Co., Ltd. was established on September 11, 2006 with an operation period of 30 years and engages primarily in the wholesale and agency of industrial control components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services.  
Jianliang (Shanghai) Trading Co., Ltd. completed the liquidation procedure on August 31, 2016.
- 3) Ningbo Airtac Automatic Industrial Co., Ltd. was established on August 16, 2001 with an operation period of 50 years, and engages primarily in the production of pneumatic and hydraulic components, Actuator components, air preparation components, and pneumatic accessories. Guangdong Airtac Automatic Industrial Co., Ltd. (previously Guangzhou Airtac Automatic Industrial Co., Ltd.) was established on December 31, 2006 with an operation period of 50 years, and engages primarily in the production of pneumatic and hydraulic control components, Actuator components, air preparation components, and pneumatic accessories. Airtac (China) Co., Ltd. primarily in the production, R&D, distribution, storage of industrial con was established on May 6, 2011 with an operation period of 50 years, and engages troll components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services. Airtac (Jiangsu) Automatic Co., Ltd. primarily in the production, distribution, storage of industrial con was established on July 2, 2015 with an operation period of 50 years, and engages troll components, pneumatic components, hydraulic components, pneumatic whole set equipment, wind power tools, electric tools, low-voltage electric appliances, and hand tools, import and export of the aforementioned products and support services.
- 4) Airtac Industrial Co., Ltd. was established on May 9, 1989 and engages primarily in the processing and sales of machinery and automated machines, manufacturing, processing and sales of hydraulic/pneumatic parts and components, and import and export trade of the aforementioned products.

ATC (Italia) S.R.L. was established on June 10, 2008 and engages primarily in the production and sales of pneumatic and hydraulic control components.

To centralize the stock right, the board of directors passed a proposal in its meeting on March 25, 2016 to acquire 15.78% of shares of Airtac Industrial Co., Ltd. The transaction price is \$101,623 thousand in cash and has been paid in April 2016. The ownership of Airtac Industrial Co., Ltd. held by the Group is increased from 53.66% to 69.44%.

To adjust the organization structure of the Company, the shareholders' meeting of Airtac Industrial Co., Ltd. approved to reduce capital on September 12, 2016. The capital reduction plan involve the cancellation of \$10 per share or 97.57% of paid-in capital. The company received \$159,006 thousand in cash of capital reduction.

The shareholders' meeting of Airtac Industrial Co. Ltd. approved to transfer the value of the employees of Airtac Industrial Co. Ltd. to Airtac International Group Taiwan Branch by assignment of business. The transferee pay the price by which is determined the outside appraisal report the cash. The transaction price is \$6,247 thousand.

- 5) Airtac International (Singapore) Pte. Ltd. was established on August 11, 2011 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components. Airtac Co., Ltd. was established on April 18, 2013 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components. Airtac USA Corporation was established on November 4, 2016 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components.
- 6) Airtac Industrial (Malaysia) Sdn. Bhd. was established on July 16, 2013 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components. Airtac Industrial (Thailand) Co., Ltd. was established on April 21, 2015 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components.
- 7) Guangdong Airtac Machinery Equipment Co., Ltd. was established on November 30, 2016 and engages in the production and sales of pneumatic and hydraulic control components, actuators, air preparation units, pneumatic auxiliary components.

## 12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

### Investments in associates

|                         | <u>December 31,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|-------------------------|------------------------------|------------------------------|
| <u>Unlisted company</u> |                              |                              |
| AMA Tech Corp.          | <u>\$ 56,858</u>             | <u>\$ 109,809</u>            |

As the end of the reporting period, the proportion of ownership and voting rights in associates held by the Group were as follows:

| <b>Name of Associate</b> | <b>Nature of Activities</b>                                    | <b>Main Operating Place</b>       | <b>December 31, 2016</b> | <b>December 31, 2015</b> |
|--------------------------|--|-----------------------------------|--------------------------|--------------------------|
| AMA Tech Corp.           | Research and develop of key-components for automatic equipment | Tucheng District, New Taipei City | 20%                      | 20%                      |

At January 28, 2015, AMA Tech Corp, investee of the Group, implement cash capital reduction through \$10 per share to shareholders. The capital reduction ratio was 50%, and the Group received \$100,000 thousand with capital reduction by returning cash.

At December 31, 2016, the carrying amounts of the Group's interests in listed investments were higher than their respective recoverable amount. The management of the Group carried out impairment review by comparing their respective recoverable amount with the carrying amount. The recoverable amount of an investment in an associate is assessed for each associate. Based on the assessments, the recoverable amounts of the Group's interests in AMA Tech Corp. was less than their carrying amounts. Hence, impairment losses of \$45,214 thousand was recognized in profit or loss for the nine months ended December 31, 2016.

Impairment loss recognized on the Group's investments in associates was as follows:

|                          | <b>For the Year Ended<br/>December 31</b> |             |
|--------------------------|---|-------------|
| <b>Name of Associate</b> | <b>2016</b>                               | <b>2015</b> |
| AMA Tech Corp.           | <u>\$ 45,214</u>                          | <u>\$ -</u> |

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 was based on the associates' financial statements audited by the auditors for the same years.

Aggregate information of associates are followed:

|                   | <b>December 31</b> |                   |
|-------------------|--------------------|-------------------|
|                   | <b>2016</b>        | <b>2015</b>       |
| Total assets      | <u>\$ 299,297</u>  | <u>\$ 354,331</u> |
| Total liabilities | <u>\$ 15,007</u>   | <u>\$ 31,357</u>  |

**For the Year ended  
December 31**

|               | <b>2016</b>        | <b>2015</b>        |
|---------------|--------------------|--------------------|
| Total Revenue | <u>\$ 51,849</u>   | <u>\$ 7,608</u>    |
| Net Loss      | <u>(\$ 38,684)</u> | <u>(\$ 57,794)</u> |

### 13. PROPERTY, PLANT AND EQUIPMENT

|  | Land                | Buildings           | Machinery<br>and<br>Equipment | Transportatio<br>n Equipment | Office<br>facilities and<br>other<br>equipment | Property in<br>construction | Total                |
|--|---------------------|---------------------|-------------------------------|------------------------------|--|-----------------------------|----------------------|
| <u>Cost</u>  |                     |                     |                               |                              |  |                             |                      |
| Balance at January 1, 2015                         | \$ 1,049,016        | \$ 4,760,010        | \$ 3,230,219                  | \$ 257,454                   | \$ 957,029                                     | \$ 2,358,705                | \$ 12,612,433        |
| Additions  | -                   | 9,360               | 809,163                       | 65,947                       | 208,450  | 1,360,349                   | 2,453,269            |
| Disposals  | -                   | ( 1,200)            | ( 53,112)                     | ( 3,647)                     | ( 34,277)                                      | ( 936)                      | ( 93,172)            |
| Reclassification                                   | -                   | 467,325             | 3,329                         | 1,729                        | ( 30,181)                                      | ( 442,993)                  | ( 791)               |
| Effect of foreign currency<br>exchange differences | -                   | ( 91,497)           | ( 80,837)                     | ( 16,625)                    | ( 18,905)                                      | ( 12,275)                   | ( 220,139)           |
| Balance at December 31,<br>2015                    | <u>\$ 1,049,016</u> | <u>\$ 5,143,998</u> | <u>\$ 3,908,762</u>           | <u>\$ 304,858</u>            | <u>\$ 1,082,116</u>                            | <u>\$ 3,262,850</u>         | <u>\$ 14,751,600</u> |
| <u>Accumulated depreciation</u>                    |                     |                     |                               |                              |  |                             |                      |
| Balance at January 1, 2015                         | \$ -                | \$ 566,192          | \$ 1,039,610                  | \$ 124,342                   | \$ 452,548                                     | \$ -                        | \$ 2,182,692         |
| Depreciation expenses                              | -                   | 130,026             | 295,636                       | 58,269                       | 146,994  | -                           | 630,925              |
| Disposals  | -                   | ( 560)              | ( 38,406)                     | ( 2,988)                     | ( 28,356)                                      | -                           | ( 70,310)            |
| Reclassification                                   | -                   | 3,399               | -                             | 159                          | ( 3,558)                                       | -                           | -                    |
| Effect of foreign currency<br>exchange differences | -                   | ( 19,948)           | ( 39,629)                     | ( 15,226)                    | 265  | -                           | ( 74,538)            |
| Balance at December 31,<br>2015                    | <u>\$ -</u>         | <u>\$ 679,109</u>   | <u>\$ 1,257,211</u>           | <u>\$ 164,556</u>            | <u>\$ 567,893</u>                              | <u>\$ -</u>                 | <u>\$ 2,668,769</u>  |
| Carrying amount at<br>December 31, 2015            | <u>\$ 1,049,016</u> | <u>\$ 4,464,889</u> | <u>\$ 2,651,551</u>           | <u>\$ 140,302</u>            | <u>\$ 514,223</u>                              | <u>\$ 3,262,850</u>         | <u>\$ 12,082,831</u> |
| <u>Cost</u>  |                     |                     |                               |                              |  |                             |                      |
| Balance at January 1, 2016                         | \$ 1,049,016        | \$ 5,143,998        | \$ 3,908,762                  | \$ 304,858                   | \$ 1,082,116                                   | \$ 3,262,850                | \$ 14,751,600        |
| Additions  | 1,031               | 72,239              | 938,499                       | 17,861                       | 138,205  | 376,733                     | 1,544,838            |
| Disposals  | ( 159,958)          | ( 426,523)          | ( 132,446)                    | ( 38,733)                    | ( 95,325)                                      | -                           | ( 852,985)           |
| Reclassification                                   | -                   | 3,231,101           | 70,828                        | 9,682                        | 34,655   | ( 3,346,266)                | -                    |
| Effect of foreign currency<br>exchange differences | -                   | ( 363,051)          | ( 312,478)                    | ( 14,609)                    | ( 78,044)                                      | ( 46,771)                   | ( 814,953)           |
| Balance at December 31,<br>2016                    | <u>\$ 890,356</u>   | <u>\$ 7,657,764</u> | <u>\$ 4,473,165</u>           | <u>\$ 279,059</u>            | <u>\$ 1,081,607</u>                            | <u>\$ 246,546</u>           | <u>\$ 14,628,500</u> |
| <u>Accumulated depreciation</u>                    |                     |                     |                               |                              |  |                             |                      |
| Balance at January 1, 2016                         | \$ -                | \$ 679,109          | \$ 1,257,211                  | \$ 164,556                   | \$ 567,893                                     | \$ -                        | \$ 2,668,769         |
| Depreciation expenses                              | -                   | 183,997             | 350,280                       | 53,107                       | 163,310  | -                           | 750,694              |
| Disposals  | -                   | ( 114,137)          | ( 97,683)                     | ( 29,735)                    | ( 80,311)                                      | -                           | ( 321,866)           |
| Reclassification                                   | -                   | -                   | -                             | 194                          | ( 194)   | -                           | -                    |
| Effect of foreign currency<br>exchange differences | -                   | ( 45,064)           | ( 121,842)                    | ( 19,770)                    | ( 50,990)                                      | -                           | ( 237,666)           |
| Balance at December 31,<br>2016                    | <u>\$ -</u>         | <u>\$ 703,905</u>   | <u>\$ 1,387,966</u>           | <u>\$ 168,352</u>            | <u>\$ 599,708</u>                              | <u>\$ -</u>                 | <u>\$ 2,859,931</u>  |
| Carrying amount at<br>December 31, 2016            | <u>\$ 890,356</u>   | <u>\$ 6,953,859</u> | <u>\$ 3,085,199</u>           | <u>\$ 110,707</u>            | <u>\$ 481,899</u>                              | <u>\$ 246,546</u>           | <u>\$ 11,768,569</u> |

The Group disposed the plant located in Baiyun district in Guangzhou city in June 2016. The carrying amount of the plant was \$50,318 thousand and the Group recognized \$175,190 thousand of gain in profit or loss when disposed the plant.

The Group disposed the plant located in Tucheng district in New Taipei city in September 2016. The carrying amount of the plant was \$441,449 thousand and the

Group recognized \$358,551 thousand of gain in profit or loss when disposed the plant.

There was no impairment indication for property, plant and equipment. The Group did not recognize any impairment loss for the years ended December 31, 2016 and 2015.

The above items of property, plant and equipment were depreciated on a straight-line basis over the estimated useful life of the asset:

|                                      |             |
|--------------------------------------|-------------|
| Buildings and structures             |             |
| Main Buildings                       | 40-50 years |
| Engineering systems                  | 10-20 years |
| Machinery and equipment              | 4-20 years  |
| Transportation equipment             | 2-5 years   |
| Office equipment and other equipment | 2-15 years  |

Refer to Note 31 for the carrying amount of property, plant and equipment pledged by the Group to secure bank loans.

#### 14. PREPAYMENTS FOR LEASE

|                   | December 31,<br>2016 | December 31,<br>2015 |
|-------------------|----------------------|----------------------|
| Current asset     | \$ 3,346             | \$ 3,198             |
| Non-current asset | \$ 453,520           | \$ 126,393           |

The prepayments for leases is applicable to the land use right located in Mainland China.

#### 15. OTHER ASSETS

|                            | December 31,<br>2016 | December 31,<br>2015 |
|----------------------------|----------------------|----------------------|
| <u>Current</u>             |                      |                      |
| Excess VAT paid            | \$ 73,734            | \$ 185,614           |
| Prepayments                | 47,997               | 29,883               |
| Prepaid tax expenses       | 25,729               | 11,686               |
| Prepaid expenses           | 48,096               | 45,589               |
| Prepayments for lease      | 3,346                | 3,198                |
| Others                     | 71                   | 1,803                |
|                            | <u>\$ 198,973</u>    | <u>\$ 277,773</u>    |
| <u>Non-current</u>         |                      |                      |
| Prepayments for equipment  | \$ 441,633           | \$ 408,107           |
| Refundable deposits        | 29,243               | 25,462               |
| Net defined benefit assets | 6,966                |                      |
|                            | <u>\$ 477,842</u>    | <u>\$ 433,569</u>    |



## 16. LOANS

### (1) Short-term loans

|                        | December 31,<br>2016 | December 31,<br>2015 |
|------------------------|----------------------|----------------------|
| <u>Unsecured loans</u> |                      |                      |
| Line of credit loans   | \$ 7,811,568         | \$ 6,385,541         |

The range of interest rate on bank loans was 1.02%-2.25% and 0.95%-1.63% per annum as of December 31, 2016 and 2015, respectively.

### (2) Short-term bills payable

|                  | December 31,<br>2016 | December 31,<br>2015 |
|------------------|----------------------|----------------------|
| Commercial paper | \$                   | \$ 40,000            |

Outstanding short-term bills payable were as follows:  
December 31, 2015

| <u>Promissory Institutions</u> | <u>Nominal<br/>amount</u> | <u>Discount<br/>amount</u> | <u>Carrying<br/>amount</u> | <u>Interest<br/>rate</u> |
|--------------------------------|---------------------------|----------------------------|----------------------------|--------------------------|
| Taiwan Finance                 | \$ 25,000                 | \$ -                       | \$ 25,000                  | 0.90%                    |
| Grand Bills                    | 15,000                    | -                          | 15,000                     | 0.82%                    |
|                                | <u>\$ 40,000</u>          | <u>\$ -</u>                | <u>\$ 40,000</u>           |                          |

The payables of the commercial paper have not been discounted, because the effect was not material.

### (3) Long-term loans

|   | December 31,<br>2016 | December 31,<br>2015 |
|---|----------------------|----------------------|
| <u>Secured loans</u>  |                      |                      |
| Repay principal between November, 2008 and August, 2023<br>based on annuity method and pay interest on a monthly<br>basis. (1.580%) Repay in September 2016 in advance. | \$ -                 | \$ 189,976           |
| Between May, 2014 and May 2019 (with interest rate of 1.790%)   | 2,477,852            | 2,915,120            |
| Total   | 2,477,852            | 3,105,096            |
| Deduct: Current portion   | ( 437,268)           | ( 460,763)           |
| Deduct: Syndication loan charge fee   | ( 5,535)             | ( 7,866)             |
| Long-term loans   | <u>\$ 2,035,049</u>  | <u>\$ 2,636,467</u>  |

In April, 2014, the Group signed a \$2,950,000 thousand syndicated loan (the Loan) with Mega International Commercial Bank and 7 other participating banks. The Loan is effective in 18 months after the first draw and the undrawn facilities will be automatically cancelled as the effective term terminated. The principal will be payable after two years from the first draw, May 15, 2014, in 7 semiannually installments. The first to the sixth installment will be calculated at a repayable amount equal to 7.5% of the outstanding principal prior to the day before the first

installment and the 55% remainder principal will be repaid in full on the maturity date. Pursuant to the loan agreement, financial ratios must comply with predetermined financial covenants on December 31, 2014.

Refer to Note 31 for the information relating to the Group's assets pledged as collateral bank loans.

## 17. NOTES PAYABLE AND TRADE PAYABLES

The Group's average credit terms of purchasing goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within pre-agreed credit terms.

## 18. OTHER LIABILITIES

|                                    | December 31,<br>2016 | December 31,<br>2015 |
|------------------------------------|----------------------|----------------------|
| <u>Current</u>                     |                      |                      |
| Other payables                     |                      |                      |
| Payables for purchase of equipment | \$ 104,37            | \$ 113,63            |
| Salaries and bonus                 | 561,03               | 382,78               |
| Others                             | 45,37                | 52,19                |
|                                    | <u>\$ 710,78</u>     | <u>\$ 548,61</u>     |
| Other current liabilities          |                      |                      |
| Other taxes                        | \$ 73,88             | \$ 67,44             |
| Account collected in advance       | 61,83                | 70,29                |
| Others                             | 7,74                 | 6,67                 |
|                                    | <u>\$ 143,46</u>     | <u>\$ 144,41</u>     |

## 19. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

Airtac Industrial Co. of the Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Jianliang (Shanghai) Trading Co., Ltd., Ningbo Airtac Automatic Industrial Co., Guangdong Airtac Automatic Industrial Co., Airtac (China) Co., Ltd. and Airtac (Jiangsu) Automatic Co., Ltd. of the Group shall contribute amounts of a certain ratio of employees' monthly salaries and wages to a pension fund according to local regulations.

The pension costs recognized in total comprehensive income under the defined contribution plan amounted to \$153,073 thousand and \$131,831 thousand for the years ended December 31, 2016 and 2015, respectively.

b. Defined benefit plans

The defined benefit plan adopted by Airtac Industrial Co. of the Group in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. Airtac Industrial Co. contribute amounts equal to 3% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Group assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Group is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Group has no right to influence the investment policy and strategy.

The Group, Instant Reach International Limited, Airtac Trading (Hong Kong) Limited, Airtac Holding (Singapore) Pte. Ltd., Airtac Industrial (Hong Kong) Limited, ATC (Italia) S.R.L., Airtac International (Singapore) Pte. Ltd., Ningbo Airtac Automatic Industrial Co., Ltd., Guangdong Airtac Automatic Industrial Co., Ltd., Airtac (China) Co., Ltd., Airtac (Jiangsu) Automatic Co., Ltd., Airtac Co., Ltd., Airtac Industrial (Malaysia) Sdn. Bhd., Airtac Industrial (Thailand) Co., Ltd. and Guangdong Airtac Machinery Equipment Co., Ltd. do not have retirement benefit plans.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

|   | <b>December 31</b> |                  |
|---|--------------------|------------------|
|   | <b>2016</b>        | <b>2015</b>      |
| Present value of defined benefit obligation | \$ 3,403           | \$ 40,239        |
| Fair value of plan assets                   | ( 10,372)          | ( 11,870)        |
| Deficit                                     | ( 6,969)           | 28,369           |
| Unrecognized past service cost              | -                  | -                |
| Net defined benefit liability               | <u>(\$ 6,969)</u>  | <u>\$ 28,369</u> |

Movements in net defined benefit liability (asset) were as follows:

| <b>Present Value<br/>of the Defined<br/>Benefit</b> | <b>Fair Value of</b> | <b>Net Defined<br/>Benefit<br/>Liability (Asset)</b> |
|---|----------------------|--|
|---|----------------------|--|

|  | <u>Obligation</u> | <u>the Plan Assets</u> |                   |
|--|-------------------|------------------------|-------------------|
| Balance at January 1, 2015   | <u>\$ 40,359</u>  | <u>(\$ 11,018)</u>     | <u>\$ 29,341</u>  |
| Service cost   |                   |                        |                   |
| Current service cost   | 816               | -                      | 816               |
| Interest expense (income)  | <u>807</u>        | <u>( 226)</u>          | <u>581</u>        |
| Recognized in profit or loss   | <u>1,623</u>      | <u>( 226)</u>          | <u>1,397</u>      |
| Remeasurement  |                   |                        |                   |
| Return on plan assets<br>(excluding amounts<br>included in net interest) | -                 | ( 74)                  | ( 74)             |
| Actuarial (gain) loss -<br>changes in financial<br>assumptions           | 1,402             | -                      | 1,402             |
| Actuarial (gain) loss -<br>experience adjustments                        | <u>( 3,145)</u>   | <u>-</u>               | <u>( 3,145)</u>   |
| Recognized in other<br>comprehensive income                              | <u>( 1,743)</u>   | <u>( 74)</u>           | <u>( 1,817)</u>   |
| Contributions from<br>employer   | \$ -              | (\$ 552)               | (\$ 552)          |
| Balance at December 31,<br>2015  | 40,239            | ( 11,870)              | 28,369            |
| Service cost   |                   |                        |                   |
| Current service cost   | 609               | -                      | 609               |
| Gain on curtailment  | ( 36,398)         | -                      | ( 36,398)         |
| Interest expense (income)  | <u>536</u>        | <u>( 182)</u>          | <u>354</u>        |
| Recognized in profit or loss   | <u>( 35,253)</u>  | <u>( 182)</u>          | <u>( 35,435)</u>  |
| Remeasurement  |                   |                        |                   |
| Return on plan assets<br>(excluding amounts<br>included in net interest) | -                 | 99                     | 99                |
| Actuarial (gain) loss -<br>changes in financial<br>assumptions           | 4,853             | -                      | 4,853             |
| Actuarial (gain) loss -<br>experience adjustments                        | <u>( 4,393)</u>   | <u>-</u>               | <u>( 4,393)</u>   |
| Recognized in other<br>comprehensive income                              | <u>460</u>        | <u>99</u>              | <u>559</u>        |
| Contributions from<br>employer   | -                 | ( 462)                 | ( 462)            |
| Benefits paid  | <u>( 2,043)</u>   | <u>2,043</u>           | <u>-</u>          |
| Balance at December 31,<br>2016  | <u>\$ 3,403</u>   | <u>(\$ 10,372)</u>     | <u>(\$ 6,969)</u> |

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

| For the Year Ended<br>December 31  |             |          |
|--|-------------|----------|
|  | 2016        | 2015     |
| General and administrative expenses  | (\$ 35,435) | \$ 1,397 |
| Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:  |             |          |
| 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks. |             |          |
| 2) Interest risk: A decrease in the government or corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.  |             |          |
| 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.   |             |          |

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

| December 31                         |       |       |
|-------------------------------------|-------|-------|
|                                     | 2016  | 2015  |
| Discount rate(s)                    | 1.13% | 1.75% |
| Expected rate(s) of salary increase | 3.50% | 3.50% |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

| December 31                         |         |            |
|-------------------------------------|---------|------------|
|                                     | 2016    | 2015       |
| Discount rate(s)                    |         |            |
| 0.25% increase                      | (\$ 77) | (\$ 1,403) |
| 0.25% decrease                      | \$ 79   | \$ 1,467   |
| Expected rate(s) of salary increase |         |            |
| 0.25% increase                      | \$ 76   | \$ 1,420   |

|                |                 |                    |
|----------------|-----------------|--------------------|
| 0.25% decrease | (\$ <u>74</u> ) | (\$ <u>1,365</u> ) |
|----------------|-----------------|--------------------|

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

|  | December 31 |               |
|--|-------------|---------------|
|  | 2016        | 2015          |
| The expected contributions to the plan for the next year | \$ <u>9</u> | \$ <u>552</u> |
| The average duration of the defined benefit obligation   | 9.2 years   | 14.5 years    |

## 20. EQUITY

### a. Share capital

#### Ordinary shares

|   | December 31,<br>2016 | December 31,<br>2015 |
|---|----------------------|----------------------|
| Numbers of shares authorized (in thousands)           | <u>200,000</u>       | <u>200,000</u>       |
| Shares authorized                                     | \$ <u>2,000,000</u>  | \$ <u>2,000,000</u>  |
| Number of shares issued and fully paid (in thousands) | <u>179,021</u>       | <u>179,021</u>       |
| Shares issued   | \$ <u>1,790,251</u>  | \$ <u>1,790,251</u>  |

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends. Originally the Group's registered capital and paid-in capital was both US\$20 million. Starting on April 17, 2010, the Group's paid-in capital of US\$20 million was converted into NT\$ 647,000 thousand (in 64,700,000 shares with a par value of NT\$ 10 per share) at the exchange rate of 1:32.35. The Group held a general shareholders' meeting on June 29, 2010, in which, the shareholders approved a proposal to capitalize NT\$ 683,000 thousand of capital surplus passed by the board of directors in its meeting on May 27, 2010. The capitalization resulted in the issue of 68,300,000 shares with a par value of NT\$ 10 per share. On October 20, 2010, the Company's board of directors resolved to issue 17,000 thousand ordinary shares, with a par value of NT\$10 each. The shareholders approved a proposal to capitalize 10,500,000 new shares of capital surplus with a par value of NT\$ 10 per share passed by the board of directors in its meeting on May 22, 2013. On August 12, 2013, the Company's board of directors resolved to issue 10,000 thousand ordinary shares, with a par value of NT\$10 each, for consideration of NT\$196 per share, which increase the share capital issued and fully paid to \$1,705,000 thousand. The Company's shareholders also resolved to issue share dividends

from retained earnings of \$85,250 thousand in the shareholders' meeting on May 28, 2015, which increase the share capital issued and fully paid to \$1,790,250 thousand.

b. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on May 18, 2016 and had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

According to the new retained earnings distribution policy in the revised Article of Incorporation of the Company, if the Company has earning upon settlement for a fiscal year, after taxes are paid by law and accumulated deficits are set off, ten percent shall be appropriated as legal earning reserves; however, if the amount of the legal earning reserves has attained the amount of paid-in capital of the Company, no further appropriation shall be made. The remainder shall be appropriated or reversed as special earning reserves. If there still has balance, considering together with accumulated undistributed earnings, the board of directors shall prepare the proposal for earning distribution, which shall be submitted to the shareholders' meeting for a resolution of distribution of dividends and bonuses to shareholders. At least 50% of the balance of net income less accumulated deficit, legal reserve and special reserve should be appropriated as dividends. The cash dividends should be at least 10% of total dividends declared. For the revised policy of employees' compensation and remuneration to directors, please refer to Note 21 f. Employee Benefits Expense.

The Company appropriates or reverses a special reserve in accordance with Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC on April 6, 2012 and the directive entitled "Questions and Answers on Special Reserves Appropriated Following the Adoption of IFRSs". Distributions can be made out of any subsequent reversal of the debit to other equity items.

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on May 18, 2016 and May 28, 2015 were as follows:

|                          | <b>Appropriation of Earnings</b> |                      | <b>Dividends Per Share (NT\$)</b> |                      |
|--------------------------|----------------------------------|----------------------|-----------------------------------|----------------------|
|                          | <b>For Year 2015</b>             | <b>For Year 2014</b> | <b>For Year 2015</b>              | <b>For Year 2014</b> |
| Special reserve provided | \$ -                             | \$ 44,718            | \$ -                              | \$ -                 |
| Special reserve reversed | 12,545                           | -                    | -                                 | -                    |
| Cash dividends           | 716,100                          | 818,400              | 4                                 | 4.8                  |
| Stock dividends          | -                                | 85,250               | -                                 | 0.5                  |

The appropriations of earnings for 2016 had been proposed by the board of directors on February 24, 2016. The appropriations and dividends per share were as follows:

|                          | <u>Appropriation of Earnings</u> | <u>Dividends Per Share (NT\$)</u> |
|--------------------------|----------------------------------|-----------------------------------|
| Special reserve provided | \$ 43,487                        | \$                                |
| Cash dividends           | 984,696                          | 5.5                               |

c. Other equity items

Exchange differences on translating foreign operations

|  | <u>For the Year Ended December 31</u> |             |
|--|---------------------------------------|-------------|
|  | <u>2016</u>                           | <u>2015</u> |
| Balance at January 1   | \$ 419,000                            | \$ 615,843  |
| Exchange differences on translating foreign operations                           | ( 771,164)                            | ( 201,055)  |
| Changes in percentage of ownership interest in subsidiaries                      | ( 6,052)                              | -           |
| Share of exchange difference of associates accounted for using the equity method | -                                     | 4,212       |
| Balance at December 31   | ( \$ 358,216)                         | \$ 419,000  |

The relating exchange differences arising from the net assets of the Group's foreign operations which are translated from the functional currency to expression currency (i.e. NTD) are recognized in exchange differences on translating foreign operations of other comprehensive income.

## 21. NET PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS) FROM CONTINUING OPERATIONS

Net income from continuing operations includes:

a. Other income

|                         | <u>For the Year ended December 31</u> |             |
|-------------------------|---------------------------------------|-------------|
|                         | <u>2016</u>                           | <u>2015</u> |
| <u>Interest revenue</u> |                                       |             |
| Bank deposits           | \$ 27,345                             | \$ 27,848   |

b. Other gains and losses

|   | <u>For the Year ended December 31</u> |               |
|---|---------------------------------------|---------------|
|   | <u>2016</u>                           | <u>2015</u>   |
| Net foreign exchange losses                           | ( \$ 348,374)                         | ( \$ 291,933) |
| Net gain arising on financial assets designated as at | 47,851                                | 30,606        |



|  | <b>For the Year ended<br/>December 31</b> |                     |
|--|---|---------------------|
|  | <b>2016</b>                               | <b>2015</b>         |
| FVTPL  |   |                     |
| Government grants  | 81,120                                    | 108,686             |
| Gain (Loss) on disposal of property, plant and equipment | 516,392                                   | ( 8,354)            |
| Share of the loss of associates (Note 12)                | ( 7,737)                                  | ( 11,559)           |
| Impairment loss on investments in associates             | ( 45,214)                                 | -                   |
| Others   | ( 1,161)                                  | 417                 |
|  | <u>\$ 242,877</u>                         | <u>(\$ 172,137)</u> |

c. Financial costs

|                        | <b>For the Year ended<br/>December 31</b> |                  |
|------------------------|---|------------------|
|                        | <b>2016</b>                               | <b>2015</b>      |
| Interest on bank loans | <u>\$ 141,881</u>                         | <u>\$ 88,953</u> |

Information about capitalized interest was as follows:

|                           | <b>For the Year ended<br/>December 31</b> |             |
|---------------------------|---|-------------|
|                           | <b>2016</b>                               | <b>2015</b> |
| Capitalized interest      | \$ 12,031                                 | \$ 40,464   |
| Capitalized interest rate | 1.79%                                     | 1.79%       |

d. Depreciation and amortization

|   | <b>For the Year ended<br/>December 31</b> |                   |
|---|---|-------------------|
|   | <b>2016</b>                               | <b>2015</b>       |
| Property, plant and equipment           | \$ 750,694                                | \$ 630,925        |
| Intangible assets                       | <u>15,760</u>                             | <u>15,649</u>     |
|   | <u>\$ 766,454</u>                         | <u>\$ 646,574</u> |
| An analysis of deprecation by function  |   |                   |
| Operating costs                         | \$ 456,022                                | \$ 370,811        |
| Selling and marketing expenses          | 112,686                                   | 110,646           |
| General and administration expenses     | 148,739                                   | 115,596           |
| Research and development expenses       | <u>33,247</u>                             | <u>33,872</u>     |
|   | <u>\$ 750,694</u>                         | <u>\$ 630,925</u> |
| An analysis of amortization by function |   |                   |
| Operating costs                         | \$ 979                                    | \$ 877            |
| Selling and marketing expenses          | 1,073                                     | 1,207             |
| General and administration expenses     | 9,389                                     | 9,478             |
| Research and development expenses       | <u>4,319</u>                              | <u>4,087</u>      |
|   | <u>\$ 15,760</u>                          | <u>\$ 15,649</u>  |

e. Employee benefits expense

|  | For the Year ended<br>December 31 |                    |
|--|-----------------------------------|--------------------|
|  | 2016                              | 2015               |
| Post-employment benefits (Note 19)                   |                                   |                    |
| Defined contribution plans                           | \$ 153,073                        | \$ 131,831         |
| Defined benefit plans                                | ( 35,435 )                        | 1,397              |
|  | <u>117,638</u>                    | <u>133,228</u>     |
| Other employee benefits                              | <u>2,771,329</u>                  | <u>2,308,129</u>   |
| Total employee benefits expense                      | <u>\$2,888,967</u>                | <u>\$2,441,357</u> |
| An analysis of employee benefits expense by function |                                   |                    |
| Operating costs                                      | \$1,274,218                       | \$1,019,226        |
| Operating expenses                                   | <u>1,614,749</u>                  | <u>1,422,131</u>   |
|  | <u>\$2,888,967</u>                | <u>\$2,441,357</u> |

(1) Employees' compensation and remuneration to directors and supervisors for 2016 and 2015

To be in compliance with the Company Act as amended in May 2015, the proposed amended Articles of Incorporation of the Company stipulate to distribute employees' compensation and remuneration to directors and supervisors at the rates no less than 2% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors. The employees' compensation and remuneration to directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on February 24, 2017 and February 25, 2016, respectively, were as follows:

Accrual rate

|                         | For the Year Ended December<br>31 |      |
|-------------------------|-----------------------------------|------|
|                         | 2016                              | 2015 |
| Employees' compensation | 3.5%                              | 3.2% |

Amount

|                         | For the Year Ended 2016 |       | For the Year Ended 2015 |       |
|-------------------------|-------------------------|-------|-------------------------|-------|
|                         | Cash                    | Stock | Cash                    | Stock |
| Employees' compensation | \$ 88,849               | \$ -  | \$ 47,087               | \$ -  |

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration to directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the bonus to employees, directors and supervisors approved in shareholders' meetings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(2) Bonus to employees and remuneration to directors and supervisors for 2014

The bonus to employees and remuneration to directors and supervisors for 2014 which have been approved in the shareholders' meeting on May 28, 2015 were as follows:

|                    | <b>For the Year Ended<br/>December 31, 2014</b> |              |
|--------------------|---|--------------|
|                    | <b>Cash</b>                                     | <b>Share</b> |
| Bonus to employees | \$ 62,871                                       | \$ -         |

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the shareholders' meeting on May 28, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

f. Gain or loss on foreign currency exchange

|                         | <b>For the Year ended<br/>December 31</b> |                       |
|-------------------------|---|-----------------------|
|                         | <b>2016</b>                               | <b>2015</b>           |
| Foreign exchange gains  | \$ 260,031                                | \$ 136,839            |
| Foreign exchange losses | ( 608,405 )                               | ( 428,772 )           |
|                         | <u>( \$ 348,374 )</u>                     | <u>( \$ 291,933 )</u> |

## 22. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Income tax recognized in profit or loss

The major components of tax expense were as follow:

|   | <b>For the Year Ended December 31</b> |                   |
|---|---------------------------------------|-------------------|
|   | <b>2016</b>                           | <b>2015</b>       |
| <u>Current tax</u>                              |                                       |                   |
| In respect of the current year                  | \$ 770,577                            | \$ 515,956        |
| Adjustments for prior years                     | ( 678)                                | ( 523)            |
|   | <u>769,899</u>                        | <u>515,433</u>    |
| <u>Deferred tax</u>                             |                                       |                   |
| In respect of the current year                  | <u>50,060</u>                         | ( 50,943)         |
| Income tax expense recognized in profit or loss | <u>\$ 819,959</u>                     | <u>\$ 464,490</u> |

A reconciliation of accounting profit and income tax expenses is as follows:

|  | <b>For the Year ended<br/>December 31</b> |                     |
|--|---|---------------------|
|  | <b>2016</b>                               | <b>2015</b>         |
| Profit before tax from continuing operations         | <u>\$ 2,848,009</u>                       | <u>\$ 1,839,576</u> |
| Income tax expense calculated at the statutory rate  | \$ 859,131                                | \$ 471,421          |
| Nondeductible expenses in determining taxable income | 400                                       | 3,570               |
| Tax-exempt income                                    | ( 93,359)                                 | ( 654)              |
| Land value increment tax                             | 38,106                                    | -                   |
| Unrecognized deductible temporary differences        | 33,269                                    | -                   |
| R&D with tax credits                                 | ( 14,894)                                 | ( 12,152)           |
| Disable persons with tax credits                     | ( 960)                                    | ( 681)              |
| Adjustments for prior years' tax                     | ( 678)                                    | ( 523)              |
| Others   | ( 1,056)                                  | 3,509               |
| Income tax expense recognized in profit or loss      | <u>\$ 819,959</u>                         | <u>\$ 464,490</u>   |

The applicable tax rate used above is the corporate tax rate of 17% payable by the Group in ROC, while the applicable tax rate used by subsidiaries in China is 25% and 15%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

b. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:  
For the year ended December 31, 2016

|                                   | <u>Opening<br/>Balance</u> | <u>Recognized<br/>in Profit or<br/>Loss</u> | <u>Exchange<br/>Differences</u> | <u>Others</u> | <u>Closing<br/>Balance</u> |
|-----------------------------------|----------------------------|---|---------------------------------|---------------|----------------------------|
| <u>Deferred Tax Assets</u>        |                            |   |                                 |               |                            |
| Temporary differences             |                            |   |                                 |               |                            |
| Allowance for loss on inventories | \$ 4,659                   | \$ 4,152                                    | (\$ 632)                        | \$ -          | \$ 8,179                   |

|                                    |                   |                   |                    |                    |                   |
|------------------------------------|-------------------|-------------------|--------------------|--------------------|-------------------|
| Allowance for impaired receivables | 26,657            | 3,490             | ( 2,225)           | -                  | 27,922            |
| Defined benefit obligation         | 2,485             | ( 2,430)          | ( 55)              | -                  | -                 |
| Unrealized gross profit            | 48,022            | 6,943             | ( 3,859)           | -                  | 51,106            |
| Others                             | -                 | 6,561             | 3                  | -                  | 6,564             |
|                                    | 81,823            | 18,716            | ( 6,768)           | -                  | 93,771            |
| Loss carryforwards                 | 107,118           | 80,839            | ( 8,841)           | -                  | 179,116           |
|                                    | <u>\$ 188,941</u> | <u>\$ 99,555</u>  | <u>(\$ 15,609)</u> | <u>\$ -</u>        | <u>\$ 272,887</u> |
| <b>Deferred tax liabilities</b>    |                   |                   |                    |                    |                   |
| Temporary differences              |                   |                   |                    |                    |                   |
| Unrealized exchange gains          | \$ 252            | \$ 1,139          | (\$ 5)             | \$ -               | \$ 1,386          |
| Defined benefit obligation         | -                 | 1,134             | 50                 | -                  | 1,184             |
| Withholding tax                    | 296,300           | 147,342           | ( 24,089)          | ( 67,887)          | 351,666           |
|                                    | <u>\$ 296,552</u> | <u>\$ 149,615</u> | <u>(\$ 24,044)</u> | <u>(\$ 67,887)</u> | <u>\$ 354,236</u> |

**For the year ended December 31, 2015**

|                                    | Opening<br>Balance | Recognized<br>in Profit or<br>Loss | Exchange<br>Differences | Others             | Closing<br>Balance |
|------------------------------------|--------------------|------------------------------------|-------------------------|--------------------|--------------------|
| <b>Deferred Tax Assets</b>         |                    |                                    |                         |                    |                    |
| Temporary differences              |                    |                                    |                         |                    |                    |
| Allowance for loss on inventories  | \$ 4,338           | \$ 382                             | (\$ 61)                 | \$ -               | \$ 4,659           |
| Allowance for impaired receivables | 16,008             | 11,023                             | ( 374)                  | -                  | 26,657             |
| Defined benefit obligation         | 2,215              | 270                                | -                       | -                  | 2,485              |
| Unrealized gross profit            | 49,667             | ( 565)                             | ( 1,080)                | -                  | 48,022             |
| Others                             | 10,342             | ( 10,026)                          | ( 316)                  | -                  | -                  |
|                                    | 82,570             | 1,084                              | ( 1,831)                | -                  | 81,823             |
| Loss carryforwards                 | 75,525             | 46,173                             | ( 2,567)                | ( 12,013)          | 107,118            |
|                                    | <u>\$ 158,095</u>  | <u>\$ 47,257</u>                   | <u>(\$ 4,398)</u>       | <u>(\$ 12,013)</u> | <u>\$ 188,941</u>  |
| <b>Deferred tax liabilities</b>    |                    |                                    |                         |                    |                    |
| Temporary differences              |                    |                                    |                         |                    |                    |
| Unrealized exchange gains          | \$ -               | \$ 256                             | (\$ 4)                  | \$ -               | \$ 252             |
| Withholding tax                    | 310,887            | ( 3,942)                           | ( 5,895)                | ( 4,750)           | 296,300            |
|                                    | <u>\$ 310,887</u>  | <u>(\$ 3,686)</u>                  | <u>(\$ 5,899)</u>       | <u>(\$ 4,750)</u>  | <u>\$ 296,552</u>  |

- c. Deductible temporary differences for which no deferred tax assets have been recognized in the consolidated balance sheets

|                                    | <b>December 31</b> |             |
|------------------------------------|--------------------|-------------|
|                                    | <b>2016</b>        | <b>2015</b> |
| Allowance for impaired receivables | <u>\$195,701</u>   | <u>\$ -</u> |

- d. Information about unused loss carry-forward and tax-exemption

Loss carryforwards as of December 31, 2015 comprised of :

| <u>Unused Amount</u> | <u>Expiry Year</u> |
|----------------------|--------------------|
| \$ 50,837            | 2023               |
| 174,184              | 2024               |
| 278,003              | 2025               |
| 589,263              | 2026               |
| <u>78,182</u>        | -                  |
| <u>\$ 1,170,469</u>  |                    |

As of December 31, 2016, profits attributable to the following expansion projects were exempted from income tax for a five-year period:

| <u>Expansion of Construction Project</u> | <u>Tax-exemption Period</u>       |
|--|-----------------------------------|
| Production of machinery and equipment    | January 1, 2013~December 31, 2016 |

e. Income tax assessments

The income tax returns of the Company and subsidiaries, except Instant Reach International Limited are exempted from income tax, Airtac International Group Taiwan Branch, and Airtac Industrial Co., Ltd have been respectively examined and cleared by the ROC tax authority through 2014. The other subsidiaries have also filed business income tax returns by the deadlines set by the local governments.

## 23. EARNINGS PER SHARE

The weighted average number of shares outstanding used for the earnings per share computation were as follows:

Unit: NT\$ Per Share

Net profit for the period

|  | <u>For the year ended<br/>December 31</u> |                     |
|--|---|---------------------|
|  | <u>2016</u>                               | <u>2015</u>         |
| Profit for the period attributable to owners of the Company    | <u>\$ 1,918,675</u>                       | <u>\$ 1,367,550</u> |
| Earnings used in the computation of basic earnings per share   | 1,918,675                                 | 1,367,550           |
| Effect of potentially dilutive ordinary shares:                | -   | -                   |
| Earnings used in the computation of diluted earnings per share | <u>\$ 1,918,675</u>                       | <u>\$ 1,367,550</u> |

Weighted average number of ordinary shares outstanding (in thousand shares):

| <u>For the year ended<br/>December 31</u> |             |
|---|-------------|
| <u>2016</u>                               | <u>2015</u> |

|  |                |                |
|--|----------------|----------------|
| Weighted average number of ordinary shares in computation of basic earnings per share            | 179,025        | 179,025        |
| Effect of potentially dilutive ordinary shares:  |                |                |
| Bonus issue to employees or employee remuneration  | <u>341</u>     | <u>311</u>     |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | <u>179,366</u> | <u>179,336</u> |

If the Company offered to settle bonuses paid to employees in cash or shares, the Company assumed the entire amount of the bonus would be settled in shares and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, if the effect is dilutive. Such dilutive effect of the potential shares was included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

#### 24. GOVERNMENT GRANTS

The government grants indicate the governmental subsidies received by subsidiaries in Mainland China from the local finance bureau.

#### 25. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On April 18, 2016, the Group subscribed for additional new shares of Airtac Industrial Co., Ltd. at a percentage different from its existing ownership percentage, increasing its continuing interest from 53.66% to 69.44%.

The above transactions were accounted for as equity transactions, since the Group did not cease to have control over these subsidiaries.

|   | Airtac Industrial<br>Co., Ltd. |
|---|--------------------------------|
| Cash consideration paid   | \$ 101,623                     |
| The proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests | ( 52,219)                      |
| Reattribution of other equity from non-controlling interests  |                                |
| — Exchange differences arising on the translation of the financial statements of foreign operations                           | ( 6,052)                       |
| — Remeasurement on defined benefit plans  | <u>1,511</u>                   |
| Differences arising from equity transaction   | <u>\$ 44,863</u>               |

#### 26. NON-CASH TRANSACTIONS

The Group entered into the following non-cash investing and financing activities which were not reflected in the consolidated statement of cash flows during the period of the years ended December 31, 2016 and 2015.

- a. The Group acquired property, plant and equipment with an aggregate fair value of \$1,544,838 thousand during the period of the years ended December 31, 2016. Other trade payables decrease \$619 thousand in total. The cash paid of the Group for **acquisition** of property, plant and equipment was \$1,545,529 thousand (refer to Note 13).
- b. The Group acquired property, plant and equipment with an aggregate fair value of \$2,453,269 thousand during the period of the years ended December 31, 2015. Other non-current assets decrease \$28,917 thousand in total. Other trade payables decrease \$43,192 thousand in total. The cash paid of the Group for **acquisition** of property, plant and equipment was \$2,467,544 thousand (refer to Note 13).

## 27. OPERATING LEASE AGREEMENTS

### The Group as lessee

Operating leases relate to purpose of office leasing with lease terms between 1 and 10 years. The Group does not have a bargain purchase option to acquire the purpose of office leasing at the expiration of the lease periods.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

|   | December 31,<br>2016 | December 31,<br>2015 |
|---|----------------------|----------------------|
| Not later than one year                           | \$ 39,335            | \$ 44,265            |
| Later than one year and not later than five years | 49,404               | 44,545               |
| Later than five years                             | 264                  | 2,165                |
|   | <u>\$ 89,003</u>     | <u>\$ 90,975</u>     |

## 28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of net debt borrowings offset by cash and cash equivalents and equity of the Group comprising issued capital, reserves, retained earnings, other equity and non-controlling interests.

The Group is not subject to any externally imposed capital requirements.

Key management personnel of the Group review the capital structure on a semi-annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall



capital structure, the Group may adjust the amount of dividends paid to shareholders, the number of new shares issued or repurchased, and/or the amount of new debt issued or existing debt redeemed.

## 29. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments that are not measured at fair value

The management of the Group considers that the carrying amounts of financial assets and liabilities not measured at fair value are close to the fair value.

1. Fair value of financial instruments that are measured at fair value on a recurring basis
  - 1) Fair value hierarchy

#### December 31, 2016

|                           | <u>Level 1</u> | <u>Level 2</u>     | <u>Level 3</u> | <u>Total</u>       |
|---------------------------|----------------|--------------------|----------------|--------------------|
| Financial assets at FVTPL |                |                    |                |                    |
| Structured deposits       | \$ <u>-</u>    | <u>\$1,852,023</u> | \$ <u>-</u>    | <u>\$1,852,023</u> |

#### December 31, 2015

|                           | <u>Level 1</u> | <u>Level 2</u>     | <u>Level 3</u> | <u>Total</u>       |
|---------------------------|----------------|--------------------|----------------|--------------------|
| Financial assets at FVTPL |                |                    |                |                    |
| Structured deposits       | \$ <u>-</u>    | <u>\$1,001,937</u> | \$ <u>-</u>    | <u>\$1,001,937</u> |

There were no transfers between the level 1 and level 2 during the period of the years ended December 31, 2016 and 2015.

2. Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

| <u>Financial Instruments</u> | <u>Valuation Techniques and Inputs</u>  |
|------------------------------|---|
| Structures deposits          | Discounted cash flow.<br>Future cash flows are estimated based on yield rate at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties. |

### b. Categories of financial instruments

|                                     | <u>December 31,</u><br><u>2016</u> | <u>December 31,</u><br><u>2015</u> |
|-------------------------------------|------------------------------------|------------------------------------|
| <u>Financial assets</u>             |                                    |                                    |
| Financial assets at FVTPL           |                                    |                                    |
| Designated as at FVTPL              | \$ 1,852,02                        | \$ 1,001,93                        |
| Loans and receivables (Note 1)      | 5,646,75                           | 5,162,88                           |
| <u>Financial liabilities</u>        |                                    |                                    |
| Measured at amortized cost (Note 2) | 10,995,38                          | 10,081,70                          |

Note 1: The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, trade receivables, and other receivables.

Note 2: The balances included financial liabilities measured at amortization cost, which comprise short-term loans, short-term bills payables, notes payable, trade payables, other payables, and long-term loans (including current portion).

#### c. Financial risk management objectives and policies

The Group's main financial instruments include cash and cash equivalents, notes and trade receivables, other receivables, short-term bills payable, notes and trade payables, other payables and loans. The finance department of the Group provides service to business departments, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

##### 1. Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see Note (1) below) and interest rates (see Note (2) below).

There had been no change to the Group's exposure to market risks or the manner in which these risks were managed and measured.

##### (1) Foreign currency risk

Several subsidiaries of the Company had foreign currency sales and purchases, which exposed the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on

consolidation) and of the derivatives exposing to foreign currency risk at the end of the reporting period are set out in Note 31.

### Sensitivity analysis

The Group was mainly exposed to the currency USD.

The following table details the Group's sensitivity to a 1% increase and decrease in the functional currency against the USD. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated with the functional currency strengthen 1% against the USD. For a 1% weakening of the functional currency against the USD, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

|                   | USD Impact                     |          |
|-------------------|--------------------------------|----------|
|                   | For the Year ended December 31 |          |
|                   | 2016                           | 2015     |
| Profit and losses | \$ 49,211                      | \$49,824 |

This was mainly attributable to the exposure outstanding on USD receivables and payables, which were not hedged at the end of the reporting period.

### (2) Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow loans at both fixed and floating interest rates. To manage this risk, the Group maintains an appropriate mix of fixed and floating rate borrowings. The Group periodically evaluates hedging activities, view it with interest and consistent with the established risk appetite, using hedging strategies to ensure the most cost-effective.

The carrying amount of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

|                        | December 31,<br>2016 | December 31,<br>2015 |
|------------------------|----------------------|----------------------|
| Fair value risk        |                      |                      |
| -Financial assets      | \$ 687,586           | \$ 751,997           |
| -Financial liabilities | 10,283,885           | 9,332,796            |

|                        | December 31,<br>2016 | December 31,<br>2015 |
|------------------------|----------------------|----------------------|
| Cash flow risk         |                      |                      |
| -Financial assets      | 1,146,017            | 1,336,102            |
| -Financial liabilities | -                    | 189,976              |

### Sensitiveness analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher or lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2015 and 2014 would decrease or increase by \$11,461 thousand and \$8,096 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and borrowings.

## 2. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation and financial guarantees provided by the Group could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are audited and approved by the risk management committee annually.

The Group did transactions with a large number of unrelated customers and, thus, no concentration of credit risk was observed.

The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any other counterparty did

not exceed 1% of gross monetary assets at any time during the years ended December 31, 2016 and 2015.

The Group's concentration of credit risk by geographical locations was mainly in Mainland China, which accounted for 90.76% and 86.48% of the total trade receivables as of December 31, 2016 and 2015, respectively.

### 3.Liquidity

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank loans as a significant source of liquidity. As of December 31, 2016 and 2015, the Group had available unutilized short-term bank loan facilities set out in (2) below.

#### (1) Liquidity and interest rate risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

To the extent that interest flows are floating rate, the undiscounted amount was derived from the interest rate curve at the end of the reporting period.

#### December 31, 2016

|   | Shorter<br>than 3<br>months | 3 months<br>to 1 year | 1 to 5 years       | Longer<br>than 5<br>years |
|---|-----------------------------|-----------------------|--------------------|---------------------------|
| <u>Non-derivative financial liabilities</u> |                             |                       |                    |                           |
| Non-interest bearing                        | \$1,168,150                 | \$ 104,378            | \$ -               | \$ -                      |
| Fixed interest rate liabilities             | 5,445                       | 8,257,846             | 2,037,502          | -                         |
|   | <u>\$1,173,595</u>          | <u>\$8,362,224</u>    | <u>\$2,037,502</u> | <u>\$ -</u>               |

#### December 31, 2015

|  | Shorter<br>than 3 | 3 months<br>to 1 year | 1 to 5 years | Longer<br>than 5 |
|--|-------------------|-----------------------|--------------|------------------|
|--|-------------------|-----------------------|--------------|------------------|

|   | <u>months</u>     |                    |                    | <u>years</u> |
|---|-------------------|--------------------|--------------------|--------------|
| <u>Non-derivative financial liabilities</u> |                   |                    |                    |              |
| Non-interest bearing                        | \$ 828,080        | \$ 113,636         | \$ -               | \$ -         |
| Variable interest rate liabilities          | -                 | -                  | 166,481            | -            |
| Fixed interest rate liabilities             | <u>40,000</u>     | <u>6,846,305</u>   | <u>2,469,986</u>   | <u>-</u>     |
|   | <u>\$ 868,080</u> | <u>\$6,959,941</u> | <u>\$2,636,467</u> | <u>\$ -</u>  |

## (2) Financing facilities

|   | <u>December 31,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|---|------------------------------|------------------------------|
| Unsecured bank loans (re-examined annually) |                              |                              |
| -Amounts used                               | \$ 7,811,568                 | \$ 6,425,542                 |
| -Amounts unused                             | <u>2,261,249</u>             | <u>2,263,344</u>             |
|   | <u>\$10,072,817</u>          | <u>\$ 8,688,886</u>          |
| Secured bank loans                          |                              |                              |
| -Amounts used                               | \$ 2,477,852                 | \$ 3,105,096                 |
| -Amounts unused                             | <u>-</u>                     | <u>-</u>                     |
|   | <u>\$ 2,477,852</u>          | <u>\$ 3,105,096</u>          |

## 30. TRANSACTIONS WITH RELATED PARTIES

Balances, transactions, revenue and expenses between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

### (1) Operating transaction

|  | <u>For the Year ended<br/>December 31</u> |                 |
|--|---|-----------------|
|  | <u>2016</u>                               | <u>2015</u>     |
| <u>Sales of goods</u>  |   |                 |
| Other related parties (the responsible person of the party is the director of the Group) | \$ <u>81</u>                              | \$ <u>1,100</u> |

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties.

The trade receivables from related parties on the date of balance sheet were as follows:

|  | <u>December 31,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|--|------------------------------|------------------------------|
| <u>Trade Receivables</u>   |                              |                              |
| Other related parties (the responsible person of the party is the director of the Group) | \$ <u>2</u>                  | \$ <u>-</u>                  |

No expense was recognized for the years ended December 31, 2016 and 2015 for allowance for impaired trade receivables with respect to the amounts owed by

related parties.

(2) Compensation of key management personnel

The compensation to directors and other key management personnel were as follows:

|                              | <b>For the Year ended<br/>December 31</b> |                   |
|------------------------------|---|-------------------|
|                              | <b>2016</b>                               | <b>2015</b>       |
| Short-term employee benefits | <u>\$ 154,889</u>                         | <u>\$ 114,169</u> |

The compensation to directors and other key management personnel were determined by the Remuneration Committee of Airtac in accordance with the individual performance and the market trends.

**31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY**

The following assets were provided as collateral for bank loans and the electricity tariff guarantee:

|   | <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|---|------------------------------|------------------------------|
| Pledge deposits (classified as debt investment with no active market) | \$ 8,800                     | \$ 6,340                     |
| Land  | 890,350                      | 1,049,010                    |
| Buildings, net  | <u>2,732,600</u>             | <u>252,290</u>               |
|   | <u>\$ 3,631,760</u>          | <u>\$ 1,307,650</u>          |

**32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

In addition to those disclosed in other notes, significant commitments and contingencies of the Group were as follows:

|  | <b>December 31,<br/>2016</b> | <b>December 31,<br/>2015</b> |
|--|------------------------------|------------------------------|
| Acquisition of property, plant and equipment | <u>\$ 986,202</u>            | <u>\$ 482,218</u>            |

**33. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

The significant financial assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

|                              | <u>Foreign<br/>currency</u> | <u>Exchange rate</u> | <u>Carrying<br/>amount</u> |
|------------------------------|-----------------------------|----------------------|----------------------------|
| <u>Financial assets</u>      |                             |                      |                            |
| Monetary items               |                             |                      |                            |
| USD                          | \$ 112                      | 32.03 (USD: NTD)     | \$ 3,576                   |
| USD                          | 24,332                      | 6.94 (USD: RMB)      | 779,315                    |
| RMB                          | 148,704                     | 4.62 (RMB: NTD)      | 686,568                    |
|                              |                             |                      | <u>\$ 1,469,459</u>        |
| <u>Financial liabilities</u> |                             |                      |                            |
| Monetary items               |                             |                      |                            |
| USD                          | \$ 57                       | 32.03 (USD: NTD)     | \$ 1,826                   |
| USD                          | 178,036                     | 6.94 (USD: RMB)      | 5,702,145                  |
| RMB                          | 17,015                      | 4.62 (RMB: NTD)      | 78,557                     |
|                              |                             |                      | <u>\$ 5,782,528</u>        |

#### December 31, 2015

|                              | <u>Foreign<br/>currency</u> | <u>Exchange rate</u> | <u>Carrying<br/>amount</u> |
|------------------------------|-----------------------------|----------------------|----------------------------|
| <u>Financial assets</u>      |                             |                      |                            |
| Monetary items               |                             |                      |                            |
| USD                          | \$ 192                      | 32.44 (USD: NTD)     | \$ 6,220                   |
| USD                          | 30,040                      | 6.49 (USD: RMB)      | 974,349                    |
| RMB                          | 29,880                      | 5.00 (RMB: NTD)      | 149,251                    |
|                              |                             |                      | <u>\$ 1,129,820</u>        |
| <u>Financial liabilities</u> |                             |                      |                            |
| Monetary items               |                             |                      |                            |
| USD                          | 183,840                     | 6.49 (USD: RMB)      | \$ 5,962,963               |
| RMB                          | 2,316                       | 5.00 (RMB: NTD)      | 11,568                     |
|                              |                             |                      | <u>\$ 5,974,531</u>        |

For the year ended in December 31, 2016 and 2015, realized and unrealized net foreign exchange gains (losses) were (\$348,374) thousand and (\$291,933) thousand respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

### 34. DISCLOSED ITEMS

(1) Information about significant transactions and (2) investees:

1. Loans provided to other parties (Table 1)
2. Endorsements/guarantees given to other parties (None)
3. Marketable securities held (excluding investments in subsidiaries, associates and joint controlled entities) (None)



4. Purchases or sales of the same marketable securities amounting to at least NT\$300 million or 20% of the paid-in capital. (None)
  5. Acquisition of real estate at costs of at least NT \$300 million or 20% of the paid-in capital (Table 3)
  6. Disposal of real estate at prices of at least NT\$300 million or 20% of the paid-in capital (Table 4)
  7. Purchases or sales with related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 5)
  8. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital (Table 6)
  9. Derivative transactions (Note 7)
  10. Intercompany relationships and significant intercompany transactions (Table 8)
  11. Information for investees (Table 2)
- (3) Information for investments in Mainland China
1. Information for any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area (Table 7)
  2. Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (Tables 1 and 7)
    - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
    - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
    - c) The amount of property transactions and the amount of the resultant gains or losses.
    - d) The balance of negotiable instrument endorsements/guarantees or pledges of collateral at the end of the period and the purposes.

- e) The highest balance, the ending balance, the interest rate range, and the total of current interest with respect to loans provided.
- f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

### 35. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were as follows:

Pneumatic components - direct sales  
- distributors

#### a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segment.

|  | Revenues            |                    | Profit Before Tax  |                |
|--|---------------------|--------------------|--------------------|----------------|
|  | For the Year ended  |                    | For the Year ended |                |
|  | December 31         |                    | December 31        |                |
|  | 2016                | 2015               | 2016               | 2015           |
| Pneumatic components   |                     |                    |                    |                |
| -Direct sales  | \$8,352,963         | \$6,884,843        | \$2,796,640        | \$2,184,055    |
| -Distributors  | <u>2,268,655</u>    | <u>1,912,326</u>   | <u>759,559</u>     | <u>606,644</u> |
| Total amounts of continuing operations                               | <u>\$10,621,618</u> | <u>\$8,797,169</u> | 3,556,199          | 2,790,699      |
| Share of profits of associates accounted for using the equity method |                     |                    | ( 7,737 )          | ( 11,559 )     |
| Interest revenue   |                     |                    | 27,345             | 27,848         |
| Loss on disposal of property, plant and equipment                    |                     |                    | 516,392            | ( 8,354 )      |
| Net exchange losses  |                     |                    | ( 348,374 )        | ( 291,933 )    |
| Net gain arising on financial assets designated as at FVTPL          |                     |                    | 47,851             | 30,606         |
| HQ admin. cost and directors' salaries                               |                     |                    | ( 756,572 )        | ( 608,778 )    |
| Finance costs  |                     |                    | ( 141,881 )        | ( 88,953 )     |
| Impairment loss recognized on investment in                          |                     |                    | ( <u>45,214</u> )  | <u>-</u>       |

|                          | Revenues                          |      | Profit Before Tax                 |             |
|--------------------------|-----------------------------------|------|-----------------------------------|-------------|
|                          | For the Year ended<br>December 31 |      | For the Year ended<br>December 31 |             |
|                          | 2016                              | 2015 | 2016                              | 2015        |
| subsidiaries             |                                   |      |                                   |             |
| Profit before income tax |                                   |      |                                   |             |
| from continuing          |                                   |      |                                   |             |
| operations               |                                   |      | \$2,848,009                       | \$1,839,576 |

The segment revenues were accounted for the transactions with external customers. No inter-segment sales occurred for the years ended December 31, 2016 and 2015.

Segment profit represented the profit before tax earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, gain recognized on the disposal of interest in former associates, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, gain or loss on disposal of financial instruments, exchange gain or loss, valuation gain or loss on financial instruments, finance costs and income tax expense. This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets

|                            | December 31,<br>2016 | December 31,<br>2015 |
|----------------------------|----------------------|----------------------|
| <u>Segment assets</u>      |                      |                      |
| Pneumatic components       |                      |                      |
| -Direct sales              | \$ 17,776,111        | \$ 16,558,861        |
| -Distributors              | 4,832,121            | 4,598,401            |
| Total segment total assets | 22,608,241           | 21,157,261           |
| Unallocated assets         | 354,671              | 298,751              |
| Consolidated total assets  | \$ 22,962,911        | \$ 21,456,011        |

For the purpose of monitoring segment performance and allocating resources between segments:

All assets were allocated to reportable segments other than interests in associates accounted for using the equity method, other financial assets, and current and deferred tax assets. Goodwill was allocated to reportable segments. Assets used jointly by reportable segments were allocated on the basis of the revenues earned by individual reportable segments.

**TABLE 1**

**AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES**

**LOANS PROVIDED TO OTHER PARTIES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(In Thousands of New Taiwan Dollars and Foreign Currencies, Unless Specified Otherwise)**

| No. | Lender                     | Borrower                                    | Financial Statement Account | Related Parties | Highest Balance for the Period (Note 1) | Ending Balance (Note 1)     | Actual Borrowing Amount                  | Interest Rate | Nature of Financing        | Business Transaction Amounts | Reasons for Short-term Financing | Allowance for Impairment Loss | Collateral |       | Financing Limit for Each Borrower | Aggregate Financing Limits | Note   |
|-----|----------------------------|---|-----------------------------|-----------------|---|-----------------------------|--|---------------|----------------------------|------------------------------|----------------------------------|-------------------------------|------------|-------|-----------------------------------|----------------------------|--------|
|     |                            |   |                             |                 |   |                             |  |               |                            |                              |                                  |                               | Item       | Value |                                   |                            |        |
| 0   | Airtac International Group | ATC (Italia) S.R.L                          | Other receivables           | Yes             | EUR 4,000<br>(NTD 135,600)              | EUR 4,000<br>(NTD 135,600)  | EUR 1,500<br>(NTD 50,850)                | -             | Short-term financing needs | \$ -                         | Revolving fund                   | \$ -                          | -          | -     | \$4,256,086                       | \$4,256,086                | Note 2 |
| 0   | Airtac International Group | Ningbo Airtac Automatic Industrial Co., Ltd | Other receivables           | Yes             | USD 35,000<br>(NTD1,120,984)            | USD 20,000<br>(NTD 642,562) | USD 9,400<br>(NTD 301,064)               | 2.69 %        | Short-term financing needs | -                            | Revolving fund                   | -                             | -          | -     | 4,256,086                         | 4,256,086                  | Note 2 |
| 0   | Airtac International Group | Airtac International (Singapore) Pte. Ltd.  | Other receivables           | Yes             | USD 11,000<br>(NTD 352,309)             | USD 11,000<br>(NTD 352,309) | USD 5,000<br>(NTD 160,141)               | -             | Short-term financing needs | -                            | Revolving fund                   | -                             | -          | -     | 4,256,086                         | 4,256,086                  | Note 2 |
| 0   | Airtac International Group | Airtac Co., Ltd                             | Other receivables           | Yes             | USD 10,000<br>(NTD 320,281)             | USD 5,000<br>(NTD 160,141)  | RMB 7,000<br>JPY 124,682<br>(NTD 66,681) | -             | Short-term financing needs | -                            | Revolving fund                   | -                             | -          | -     | 4,256,086                         | 4,256,086                  | Note 2 |
| 0   | Airtac International Group | Airtac Industrial (Malaysia) Sdn. Bhd.      | Other receivables           | Yes             | USD 4,000<br>(NTD 128,112)              | USD 2,000<br>(NTD 64,056)   | USD 620<br>(NTD 19,857)                  | -             | Short-term financing needs | -                            | Revolving fund                   | -                             | -          | -     | 4,256,086                         | 4,256,086                  | Note 2 |
| 1   | Airtac Industrial Co. Ltd. | Airtac International Group Taiwan Branch    | Other receivables           | Yes             | NTD 127,000                             | NTD 127,000                 | NTD 127,000                              | 0.33 %        | Short-term financing needs | -                            | Revolving fund                   | -                             | -          | -     | 148,605                           | 148,605                    | Note 3 |

Note 1: Conversion to NTD used the spot exchange rate on December 31, 2016, that is, 1USD=32.0281, 1EUR=33.8999NTD, 1RMB=4.6170NTD, 1JPY=0.2756NTD.

Note 2: According to Company’s Loans to Others Procedure, the limits on loans provided to other parties is 40% of the Group’s net worth at the end of the period.

Note 3: According to Company’s Loans to Others Procedure, the limits on loans provided to other parties is 40% of Airtac Industrial Co. Ltd.’s net worth at the end of the period.

TABLE 2

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## INFORMATION FOR INVESTEEES

FOR THE YEAR ENDED DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars and Foreign Currencies, Unless Specified Otherwise)

| Investor Company                     | Investee Company                           | Location                                 | Main Businesses and Products   | Original Investment Amount                            |   | December 31, 2015 |       |                 | Net Income (Loss) of the Investee | Share of Profits (Loss) | Note |
|--------------------------------------|--|--|--|---|---|-------------------|-------|-----------------|-----------------------------------|-------------------------|------|
|                                      |  |  |  | December 31, 2016 (Note1)                             | December 31, 2015 (Note1)                   | Shares            | %     | Carrying Amount |                                   |                         |      |
| Airtac International Group           | Airtac Industrial (Hong Kong) Limited      | Hong Kong                                | General investment   | USD 87,500<br>RMB 153,000<br>(NTD 3,508,860)          | USD 82,500<br>RMB 64,000<br>(NTD 2,937,806) | 110,807,418       | 100   | \$ 13,903,541   | \$ 2,635,474                      | \$ 2,635,474            | 2    |
|                                      | Airtac Trading (Hong Kong) Limited         | Hong Kong                                | General investment   | USD -<br>(NTD -)                                      | USD 7,000<br>(NTD 224,197)                  | 7,000,000         | 100   | 3,153           | ( 12,370)                         | ( 12,370)               | 2    |
|                                      | Instant Reach International Limited        | British Virgin Island                    | General investment   | USD 2,283<br>EUR 1,000<br>RMB 17,500<br>(NTD 187,818) | USD 8,840<br>EUR 1,000<br>(NTD 317,028)     | 1                 | 100   | 341,760         | 175,276                           | 175,276                 | 2    |
|                                      | Airtac Holding (Singapore) Pte. Ltd.       | Singapore                                | General investment   | USD 14,000<br>(NTD 448,393)                           | USD 14,000<br>(NTD 448,393)                 | 14,000,000        | 100   | 267,721         | ( 14,989)                         | ( 14,989)               | 2    |
|                                      | AMA Tech Corp.                             | Tucheng District, New Taipei City        | Metal manufacturing  | NTD 186,400   | NTD 186,400                                 | 10,000,000        | 20    | 56,858          | ( 38,684)                         | ( 7,737)                |      |
|                                      |  |  |  |   |   |                   |       |                 |                                   |                         |      |
| Instant Reach International Limited  | Airtac Industrial Co., Ltd                 | Sanxia District, New Taipei City         | Processing, sales and import/export of machines and components       | NTD 54,581  | NTD 139,503                                 | 69,435            | 69.44 | 258,715         | 356,449                           |                         | -    |
|                                      | ATC (Italia) S.R.L                         | Via Mauro Macchi n.27, 20124 Milano (MI) | Production and sales of pneumatic and hydraulic control components   | EUR 4,000<br>(NTD 135,600)                            | EUR 4,000<br>(NTD 135,600)                  | 4,000,000         | 100   | 57,145          | 10,599                            |                         | -    |
| Airtac Holding (Singapore) Pte. Ltd. | Airtac International (Singapore) Pte. Ltd. | Singapore                                | Production and sales of pneumatic control components and accessories | USD 12,500<br>(NTD 400,351)                           | USD 12,500<br>(NTD 400,351)                 | 12,500,000        | 100   | 283,459         | ( 2,591)                          |                         | -    |
|                                      | Airtac CO., Ltd.                           | Japan                                    | Production and sales of pneumatic control components and accessories | JPY 98,000<br>(NTD 27,009)                            | JPY 98,000<br>(NTD 27,009)                  | 2,000             | 100   | ( 25,308)       | ( 12,316)                         |                         | -    |
|                                      | Airtac USA Corporation                     | USA                                      | Production and sales of pneumatic control components and accessories | USD -<br>(NTD -)                                      | USD -<br>(NTD -)                            | -                 | 100   | -               | -                                 |                         | -    |
| Airtac International                 | Airtac Industrial (Malaysia)               | Malaysia                                 | Production and   | MYR 1,000   | MYR 1,000                                   | 1,000,000         | 100   | ( 10,420)       | ( 5,989)                          |                         | -    |

| Investor Company      | Investee Company           | Location | Main  | Original Investment Amount  |                             | December 31, 2015 |     |        | Net Income (Loss) of | Share of Profits | Note |
|-----------------------|----------------------------|----------|---|-----------------------------|-----------------------------|-------------------|-----|--------|----------------------|------------------|------|
| (Singapore) Pte. Ltd. | Sdn. Bhd.                  | Thailand | sales of<br>pneumatic<br>control<br>components<br>and accessories                   | (NTD 6,905)                 | (NTD 6,905)                 |                   |     |        |                      |                  |      |
|                       | Airtac Industrial Co. Ltd. |          | Production and<br>sales of<br>pneumatic<br>control<br>components<br>and accessories | THB 100,000<br>(NTD 90,500) | THB 100,000<br>(NTD 90,500) | 1,000,000         | 100 | 79,443 | ( 6,344 )            | -                |      |

Note1 : Conversion to NTD used the spot exchange rate on December 31, 2016, that is, 1 USD=32.0281 NTD, 1 EUR=33.8999 NTD, 1 JPY=0.2756 NTD, 1 RMB=4.6170 NTD, 1 MYR=6.9054 NTD, 1THB=0.9050NTD.

Note2 : The amount was eliminated upon consolidation.

Note3 : Please refer to Table 7 for information on investment in mainland China.

TABLE 3

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

ACQUISITION OF REAL ESTATE AT COSTS OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Acquiring company                           | Title of property | Transaction date or occurrence date | Transaction amount | Payment                   | Counterparty  | Relationship | Where the counterparty is a related party, the previous transfer information |                          |                  |        | Pricing reference and basis | Purpose of acquisition and use                  | Other agreements |
|---|-------------------|-------------------------------------|--------------------|---------------------------|---------------|--------------|--|--------------------------|------------------|--------|-----------------------------|---|------------------|
|   |                   |                                     |                    |                           |               |              | Owner  | Relationship with issuer | Date of transfer | Amount |                             |   |                  |
| Airtac International Group                  | Plant             | 2013.11.04-2016.06.06               | \$2,748,041        | On progress of completion | Self-building | -            | -  | -                        | -                | \$ -   | N/ A                        | Manufacturing, research and development purpose | -                |
| Ningbo Airtac Automatic Industrial Co., Ltd | Plant             | 2013.10.22-2016.01.20               | \$ 377,296         | On progress of completion | Self-building | -            | -  | -                        | -                | \$ -   | N/ A                        | Manufacturing purpose                           | -                |

AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

TABLE 4

DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST \$300 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED DECEMBER 31, 2016  
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Seller                      | Property          | Event Date | Original Acquisition Date | Carrying Amount | Transaction Amount | Collection     | Gain (Loss) on Disposal | Counterparty              | Relationship | Purpose of Disposal  | Price Reference  | Other Terms |
|-----------------------------|-------------------|------------|---------------------------|-----------------|--------------------|----------------|-------------------------|---------------------------|--------------|----------------------|------------------|-------------|
| Airtac Industrial Co., Ltd. | Land and Building | 2016.09.20 | 2008.11~2012.04           | \$ 441,449      | \$ 800,000         | 100% collected | \$ 358,551              | Jun Yong Enterprises Ltd. | -            | Operation Adjustment | Appraisal Report | -           |



TABLE 5

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## PURCHASES OR SALES WITH RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Purchaser (Seller)                             | Counterparty                                   | Relationship            | Transaction     |              |            |              | Non-arm's Length Transaction and Reasons |                      | Notes/Trade Payables/ Receivable |            | Note |
|--|--|-------------------------|-----------------|--------------|------------|--------------|--|----------------------|----------------------------------|------------|------|
|  |  |                         | Purchase (Sale) | Amount       | % of Total | Payment Term | Unit Price (Note)                        | Payment Terms (Note) | Balance                          | % to Total |      |
| Ningbo Airtac Automatic Industrial Co., Ltd    | Airtac (China) Co., Ltd.                       | The same parent company | Sales           | \$ 4,778,650 | 86         | T/T 120 days | \$-                                      | -                    | \$ 1,018,362                     | 82         |      |
| Ningbo Airtac Automatic Industrial Co., Ltd    | Guangdong Airtac Automatic Industrial Co., Ltd | The same parent company | Sales           | 263,991      | 5          | T/T 120 days | \$-                                      | -                    | 60,512                           | 5          |      |
| Ningbo Airtac Automatic Industrial Co., Ltd    | Airtac Industrial Co., Ltd                     | The same parent company | Sales           | 103,849      | 2          | T/T 120 days | \$-                                      | -                    | -                                | -          |      |
| Ningbo Airtac Automatic Industrial Co., Ltd    | Airtac International (Singapore) Pte. Ltd.     | The same parent company | Sales           | 181,218      | 3          | T/T 120 days | \$-                                      | -                    | 58,074                           | 5          |      |
| Ningbo Airtac Automatic Industrial Co., Ltd    | ATC (Italia) S.R.L                             | The same parent company | Sales           | 104,809      | 2          | T/T 120 days | \$-                                      | -                    | 38,255                           | 3          |      |
| Guangdong Airtac Automatic Industrial Co., Ltd | Airtac (China) Co., Ltd.                       | The same parent company | Sales           | 1,519,401    | 89         | T/T 120 days | -  | -                    | 342,890                          | 86         |      |
| Airtac International Group                     | Ningbo Airtac Automatic Industrial Co., Ltd    | Subsidiary              | Sales           | 380,890      | 52         | T/T 120 days | -  | -                    | 78,461                           | 32         |      |
| Airtac International Group                     | Airtac Industrial Co. Ltd.                     | Subsidiary              | Sales           | 154,581      | 21         | T/T 120 days | -  | -                    | 47,634                           | 19         |      |
| Airtac (China) Co., Ltd.                       | Airtac (Jiangsu) Automatic Co., Ltd            | The same parent company | Sales           | 1,703,839    | 18         | T/T 120 days | -  | -                    | 460,262                          | 20         |      |

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to the third parties.

TABLE 6

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2016

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Name   | Related Party                                  | Relationship            | Ending Balance | Turnover rate (%) | Overdue |               | Amounts Received in Subsequent Period | Allowance for Impairment Loss |
|--|--|-------------------------|----------------|-------------------|---------|---------------|---------------------------------------|-------------------------------|
|  |  |                         |                |                   | Amount  | Actions Taken |                                       |                               |
| Ningbo Airtac Automatic Industrial Co., Ltd    | Airtac (China) Co., Ltd.                       | The same parent company | \$ 1,018,362   | 5                 | \$ -    | -             | \$ 833,636                            | \$ -                          |
| Guangdong Airtac Automatic Industrial Co., Ltd | Airtac (China) Co., Ltd.                       | The same parent company | 342,890        | 5                 | -       | -             | 175,658                               | -                             |
| Airtac (China) Co., Ltd.                       | Airtac (Jiangsu) Automatic Co., Ltd            | The same parent company | 460,262        | 5                 | -       | -             | 201,347                               | -                             |
| Airtac International Group                     | Ningbo Airtac Automatic Industrial Co., Ltd    | Subsidiary              | 301,064        | Note 1            | -       | -             | -                                     | -                             |
| Airtac International Group                     | Airtac Industrial (Hong Kong) Limited          | Subsidiary              | 219,308        | Note 1            | -       | -             | -                                     | -                             |
| Airtac Industrial (Hong Kong) Limited          | Guangdong Airtac Automatic Industrial Co., Ltd | Subsidiary              | 249,272        | Note 1            | -       | -             | 249,272                               | -                             |
| Airtac Industrial (Hong Kong) Limited          | Airtac (China) Co., Ltd.                       | Subsidiary              | 548,459        | Note 1            | -       | -             | -                                     | -                             |
| Airtac Industrial Co., Ltd.                    | Airtac International Group                     | The parent company      | 139,962        | Note 1            | -       | -             | -                                     | -                             |

Note: The financial statement account is other receivables. Therefore, there is no turnover rate.

TABLE 7

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## INFORMATION FOR INVESTMENTS IN MAINLAND CHINA

FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Investee Company Name                          | Main Businesses and Products  | Paid-in Capital (Note 2)                     | Method of Investment | Accumulated Investment Outflow from Taiwan as of January 1, 2015 | Investment Flow for the Period |        | Accumulated Investment Outflow from Taiwan as of December 31, 2015 | Net income of Investee Company | % of Ownership - Direct or Indirect investment | Investment Gain (Loss) Recognized for the Period (Note 2) | Carrying Amount as of December 31, 2015 | Accumulated Inward Remittance of Earnings as of December 31, 2015 | Note |
|--|---|--|----------------------|--|--------------------------------|--------|--|--------------------------------|--|---|---|---|------|
|  |   |  |                      |  | Outflow                        | Inflow |  |                                |  |   |   |   |      |
| Ningbo Airtac Automatic Industrial Co., Ltd    | Production of pneumatic control components and auxiliary components                             | USD 52,000<br>RMB 66,000<br>(NTD 1,970,183)  | N/A                  | N/A  | \$ -                           | \$ -   | N/A  | \$ 1,243,313                   | 100  | \$ 1,203,936  | \$ 7,244,245                            | N/A   |      |
| Guangdong Airtac Automatic Industrial Co., Ltd | Production of pneumatic control components and auxiliary components                             | USD 6,000<br>(NTD 192,169)                   | N/A                  | N/A  | -                              | -      | N/A  | 510,157                        | 100  | 502,933   | 2,138,530                               | N/A   |      |
| Airtac (China) Co., Ltd.                       | Wholesale and agency of pneumatic components, tools and equipment, and related support services | USD 18,000<br>RMB 126,000<br>(NTD 1,158,248) | N/A                  | N/A  | -                              | -      | N/A  | 812,413                        | 100  | 815,336   | 3,874,533                               | N/A   |      |
| Airtac (Jiangsu) Automatic Co., Ltd.           | Wholesale and agency of pneumatic components, tools and equipment, and related support services | USD 1,500<br>RMB 23,000<br>(NTD 154,233)     | N/A                  | N/A  | -                              | -      | N/A  | 192,185                        | 100  | 192,185   | 362,961                                 | N/A   |      |
| Jianliang (Shanghai) Trading Co., Ltd.         | Wholesale and agency of pneumatic components, tools and equipment, and related support services | USD -<br>(NTD -)                             | N/A                  | N/A  | -                              | -      | N/A  | 1,940                          | 100  | 1,940   | -                                       | N/A   |      |
| Guangdong Airtac Machinery Equipment Co., Ltd. | Wholesale and agency of pneumatic components, tools and equipment, and related support services | RMB -<br>(NTD -)                             | N/A                  | N/A  | -                              | -      | N/A  | -                              | 100  | -   | -                                       | N/A   |      |

| Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2016 | Investment Amounts Authorized by Investment Commission, MOEA | Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|---|--|---|
| N/A   | N/A  | N/A   |

Note 1: The ways to invest in companies in Mainland China are classified into three types below. Mark the type of investment:

1. Direct investment in China.
2. Investment in China through a company registered in the third region.
3. Other ways.

Note 2: The amount was calculated based on financial statements audited by a multinational accounting firm having a cooperative relationship with an accounting firm in Taiwan.

Note 3: Conversion to NTD used the spot exchange rate on December 31, 2016, that is, 1 USD=32.0281 NTD, 1RMB=4.6170 NTD.

TABLE 8

# AIRTAC INTERNATIONAL GROUP AND SUBSIDIARIES

## INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE YEARS ENDED DECEMBER 31, 2016 (Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| No. | Company Name                               | Counter Party                                  | Nature of Relationship (Note) | Transaction Details                |            |                              |                                   |
|-----|--|--|-------------------------------|------------------------------------|------------|------------------------------|-----------------------------------|
|     |  |  |                               | Financial Statement Account        | Amount     | Payment Terms                | % of Consolidated Sales or Assets |
| 0   | Airtac International Group                 | Ningbo Airtac Automatic Industrial Co., Ltd    | 1                             | Trade receivables                  | \$ 78,461  | General terms and conditions | -                                 |
|     |  | Ningbo Airtac Automatic Industrial Co., Ltd    | 1                             | Other receivable                   | 301,064    | General terms and conditions | 1%                                |
|     |  | Ningbo Airtac Automatic Industrial Co., Ltd    | 1                             | Sales revenue                      | 380,890    | General terms and conditions | 4%                                |
|     |  | Ningbo Airtac Automatic Industrial Co., Ltd    | 1                             | Sell property, plant and equipment | 21,550     | General terms and conditions | -                                 |
|     |  | Airtac Industrial (Hong Kong) Limited          | 1                             | Dividends receivable               | 219,308    | General terms and conditions | 1%                                |
|     |  | ATC (Italia) S.R.L                             | 1                             | Other receivable                   | 50,850     | General terms and conditions | -                                 |
|     |  | Airtac Industrial (Malaysia) Sdn. Bhd.         | 1                             | Other receivable                   | 19,857     | General terms and conditions | -                                 |
|     |  | Airtac Co., Ltd.                               | 1                             | Other receivable                   | 66,686     | General terms and conditions | -                                 |
|     |  | Airtac International (Singapore) Pte. Ltd.     | 1                             | Other receivable                   | 160,141    | General terms and conditions | 1%                                |
|     |  | Airtac Industrial Co., Ltd                     | 1                             | Sales revenue                      | 11,919     | General terms and conditions | -                                 |
|     |  | Airtac (China) Co., Ltd                        | 1                             | Trade receivables                  | 47,634     | General terms and conditions | -                                 |
|     |  | Airtac (China) Co., Ltd                        | 1                             | Sales revenue                      | 154,581    | General terms and conditions | 1%                                |
|     |  | Guangdong Airtac Automatic Industrial Co., Ltd | 1                             | Sales revenue                      | 81,661     | General terms and conditions | 1%                                |
|     |  | Guangdong Airtac Automatic Industrial Co., Ltd | 1                             | Trade receivables                  | 31,992     | General terms and conditions | -                                 |
| 1   | Ningbo Airtac Automatic Industrial Co.,Ltd | Airtac International Group                     | 2                             | Trade receivables                  | 57,790     | General terms and conditions | -                                 |
|     |  | Airtac International Group                     | 2                             | Sales revenue                      | 78,249     | General terms and conditions | 1%                                |
|     |  | Airtac (China) Co., Ltd                        | 3                             | Trade receivables                  | 1, 018,362 | General terms and conditions | 4%                                |
|     |  | Airtac (China) Co., Ltd                        | 3                             | Sales revenue                      | 4, 778,650 | General terms and conditions | 45%                               |
|     |  | Guangdong Airtac Automatic Industrial Co., Ltd | 3                             | Sales revenue                      | 263,991    | General terms and conditions | 2%                                |
|     |  | Guangdong Airtac Automatic Industrial Co., Ltd | 3                             | Trade receivables                  | 60,512     | General terms and conditions | -                                 |
|     |  | Airtac Industrial Co., Ltd                     | 3                             | Sales revenue                      | 103,849    | General terms and conditions | 1%                                |
|     |  | ATC (Italia) S.R.L                             | 3                             | Sales revenue                      | 104,809    | General terms and conditions | 1%                                |
|     |  | ATC (Italia) S.R.L                             | 3                             | Trade receivables                  | 38,255     | General terms and conditions | -                                 |

| No. | Company Name                                    | Counter Party                                  | Nature of Relationship (Note) | Transaction Details                |           |                              |                                   |
|-----|---|--|-------------------------------|------------------------------------|-----------|------------------------------|-----------------------------------|
|     |   |  |                               | Financial Statement Account        | Amount    | Payment Terms                | % of Consolidated Sales or Assets |
| 1   | Ningbo Airtac Automatic Industrial Co., Ltd     | Airtac International (Singapore) Pte. Ltd.     | 3                             | Trade receivables                  | 58,074    | General terms and conditions | -                                 |
|     |   | Airtac International (Singapore) Pte. Ltd.     | 3                             | Sales revenue                      | 181,218   | General terms and conditions | 2%                                |
|     |   | Airtac Co., Ltd.                               | 3                             | Sales revenue                      | 17,861    | General terms and conditions | -                                 |
| 2   | Guangdong Airtac Automatic Industrial Co., Ltd  | Ningbo Airtac Automatic Industrial Co., Ltd    | 3                             | Sales revenue                      | 27,515    | General terms and conditions | -                                 |
|     |   | Ningbo Airtac Automatic Industrial Co., Ltd    | 3                             | Sell property, plant and equipment | 23,543    | General terms and conditions | -                                 |
|     |   | Airtac (China) Co., Ltd                        | 3                             | Trade receivables                  | 342,890   | General terms and conditions | 1%                                |
|     |   | Airtac (China) Co., Ltd                        | 3                             | Sales revenue                      | 1,519,401 | General terms and conditions | 14%                               |
|     |   | Airtac Industrial Co., Ltd                     | 3                             | Sales revenue                      | 38,802    | General terms and conditions | -                                 |
|     |   | Airtac International Group                     | 2                             | Sales revenue                      | 16,926    | General terms and conditions | -                                 |
|     |   | Airtac International Group                     | 2                             | Trade receivables                  | 16,117    | General terms and conditions | -                                 |
|     |   | ATC (Italia) S.R.L                             | 3                             | Sales revenue                      | 28,537    | General terms and conditions | -                                 |
|     |   | ATC (Italia) S.R.L                             | 3                             | Trade receivables                  | 10,559    | General terms and conditions | -                                 |
|     |   | Airtac International (Singapore) Pte.Ltd.      | 3                             | Trade receivables                  | 24,119    | General terms and conditions | -                                 |
|     |   | Airtac International (Singapore) Pte.Ltd.      | 3                             | Sales revenue                      | 76,809    | General terms and conditions | 1%                                |
| 3   | Airtac (China) Co., Ltd                         | Airtac (Jiangsu) Automatic Co., Ltd.           | 3                             | Trade receivables                  | 460,262   | General terms and conditions | 2%                                |
|     |   | Airtac (Jiangsu) Automatic Co., Ltd.           | 3                             | Sales revenue                      | 1,703,839 | General terms and conditions | 16%                               |
| 4   | Airtac International Group (Singapore) Pte.Ltd. | Airtac Industrial (Malaysia) Sdn. Bhd.         | 3                             | Sales revenue                      | 28,116    | General terms and conditions | -                                 |
|     |   | Airtac Industrial (Malaysia) Sdn. Bhd.         | 3                             | Trade receivables                  | 28,056    | General terms and conditions | -                                 |
|     |   | Airtac Industrial Co., Ltd                     | 3                             | Sales revenue                      | 18,343    | General terms and conditions | -                                 |
|     |   | Airtac Industrial Co., Ltd                     | 3                             | Trade receivables                  | 11,939    | General terms and conditions | -                                 |
| 5   | Airtac Co., Ltd.                                | Ningbo Airtac Automatic Industrial Co., Ltd    | 3                             | Sales revenue                      | 26,215    | General terms and conditions | -                                 |
| 6   | Airtac Industrial Co., Ltd                      | Airtac International Group                     | 2                             | Trade receivables                  | 79,876    | General terms and conditions | -                                 |
|     |   | Airtac International Group                     | 2                             | Sales revenue                      | 72,787    | General terms and conditions | 1%                                |
|     |   | Airtac International Group                     | 2                             | Other receivables                  | 139,962   | General terms and conditions | 1%                                |
|     |   | Airtac International Group                     | 2                             | Non-operating income               | 5,950     | General terms and conditions | -                                 |
| 7   | Airtac Industrial (Hong Kong) Limited           | Guangdong Airtac Automatic Industrial Co., Ltd | 1                             | Dividends receivable               | 249,272   | General terms and conditions | 2%                                |
|     |   | Airtac (China) Co., Ltd                        | 1                             | Dividends receivable               | 548,459   | General terms and            | 5%                                |

| No. | Company Name | Counter Party | Nature of Relationship (Note) | Transaction Details         |        |               |                                   |
|-----|--------------|---------------|-------------------------------|-----------------------------|--------|---------------|-----------------------------------|
|     |              |               |                               | Financial Statement Account | Amount | Payment Terms | % of Consolidated Sales or Assets |
|     |              |               |                               |                             |        | conditions    |                                   |

Note : No 1. Represents the transactions from parent company to subsidiary.  
No 2. Represents the transactions from subsidiary to parent company.  
No 3. Represents the transactions from subsidiary to subsidiary.